Performance Audit:
City Payroll Processes

March 2006

City Auditor's Office

City of Atlanta

CITY OF ATLANTA
City Auditor's Office
Leslie Ward, City Auditor
404.330.6452

Performance Audit:

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Why We Did This Audit

We identified employee payroll as a high risk for potential fraud, abuse, inaccuracy, and inefficiency because payroll processes for active employees are similar to that of pensioners. We found weak controls, poor processes, and lack of supervision in our audit of the pension payroll process, reported in March 2004.

What We Recommended

The commissioner of human resources should continue to review position classifications as nonexempt or exempt and correct errors.

The chief operating officer should evaluate alternatives to compensatory time for department heads and other senior executives (as defined by the administration) such as additional accrued vacation or discretionary personal days.

The commissioner of human resources and the chief financial officer should evaluate replacing donated leave with a leave pool, ensure that employees do not have multiple ID numbers in the new payroll system, and improve controls over overtime and compensatory time.

The chief operating officer and chief financial officer should evaluate options for increasing use of direct deposit by employees and providing alternatives such as payroll cards for employees without bank accounts.

The city's chief financial officer should:

(1) segregate major payroll job functions,

(2) ensure advanced sick leave is repaid, and

(3) assure vacation balances do not exceed the maximum limit.

For more information regarding this report, please contact Gerald Schaefer at 404.330.6876 or gschaefer@atlantaga.gov.

What We Found

The city has administered overtime, compensatory time, and leave accruals inconsistently – and in some cases in apparent conflict with federal law or city code – resulting in overpaying some employees and underpaying others. We identified at least $1.8 million in payroll errors between January 2002 and July 2004, but the total number of errors in this time period was likely higher because most of our specific tests were not universal. We excluded groups of employees from some tests based on differences in work rules or how information is recorded and focused some tests on higher risk areas. Besides being costly, errors impose a burden on employees and may treat employees inequitably.

The city has not yet corrected the overly broad access to system files that we first reported in our March 2004 performance audit, *Pension Division Payments to Deceased Pensioners.* We reported in 2004 that 23 city employees had access to create master files, maintain master files, and process payroll. Our follow-up one year later found that 23 city employees still had access to too many functions. We also found that departmental staff members are performing incompatible payroll duties, as well.

We found no fictitious employees; however, weak system controls could allow fictitious employees to be on the payroll because employees can (1) have multiple identification numbers, (2) be paid without having a valid social security number, and (3) occupy the same position at the same time as other employees. To test for fictitious employees, we identified 310 city employees with one or more risk factors (based on payroll records) and visited their work locations to confirm their identities. We also submitted a list of present and past city employees to the Social Security Administration (SSA) to check for invalid social security numbers. SSA analysis found over 1,500 city records that did not match SSA records – about 6 percent of the records tested.

The city has 1,156 unclaimed payroll checks totaling $469,071. The city could be fined for not remitting the unclaimed checks to the state in a timely manner. We recommend the city move toward eliminating paychecks to protect both the city and employees.

CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

CITY AUDITOR'S OFFICE
68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
W. Wayne Woody, Chair
Henry A. Kelly, Vice-Chair
Fred Williams
Mayor Shirley Franklin
Council President Lisa Borders

March 1, 2006

Honorable Mayor and Members of the City Council:

We conducted this audit of the city's payroll process because we identified employee payroll as a high risk for potential fraud, abuse, inaccuracy, and inefficiency. We issued two interim reports during the course of the audit. The first made recommendations on configuring the Kronos system to limit the potential for unauthorized changes to time and attendance information. The second made recommendations to correct employee records containing mismatches between social security numbers and employee names and to reduce the likelihood of such errors in the future.

The recommendations in this report identify improvements that will strengthen the current control environment and introduce more effective management over payroll processes. They build on management initiatives already begun by the commissioner of human resources and city's chief financial officer, and supplement recommendations we already made in interim reports, and in our *Pre-Implementation Review of the ERP System*. Management agrees with our recommendations. Written responses from the chief financial officer and commissioner of human resources are appended to the report.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Ty Elliott, Lesia Johnson, and Gerald Schaefer.

Leslie Ward
City Auditor

Wayne Woody
Audit Committee Chair

City Payroll Processes

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Introduction

We conducted this audit of the city's payroll processes for active employees pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.[1]

We identified employee payroll as a high risk for potential fraud, abuse, inaccuracy, and inefficiency because payroll processes for active employees are similar to that of pensioners. We found weak controls, poor processes, and lack of supervision in our audit of the pension payroll process, reported in March 2004. We included this topic in our 2004 audit plan and the Audit Committee reviewed our specific audit scope in December 2004.

Overview of the City's Payroll Process

While all departments have a role in recording, processing, and distributing employee payroll information, the Departments of Finance and Human Resources play lead roles. Paying city employees is a labor-intensive operation that includes duplicative manual and automated processes. To handle the workload, city employees are paid in six groups on a staggered schedule, running 3 to 4 different payrolls every week. The city is implementing automated time and attendance reporting, in order to streamline this part of the process. Many aspects of city employees' compensation are governed by the city Code of Ordinances and by federal laws and regulations.

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[1] Comptroller General of the United States, *Government Auditing Standards,* Washington, DC: U.S. Government Accountability Office, 2003, p. 21.

Finance, Human Resources and Other Departments Share Payroll-Related Functions

The Departments of Finance and Human Resources have primary responsibility for administering payroll and related activities, but all units of the city government participate. Exhibit 1 illustrates the major parts of the process.

EXHIBIT 1

THE PAYROLL CYCLE

1. Dept. submits employee payroll updates to DHR
2. DHR updates employee info & enters into PeopleSoft
3. DIT generates "prelist" of employees & hrs from DHR entries
4. Dept. timekeepers record leave, OT, comp time, etc. to the prelist
5. Dept. head approves & records changes on payroll change forms
6. Payroll processes approved prelist & change form
7. Payroll posts the time into PeopleSoft
8. Payroll Supervisor prints the trial balance & leave accruals
9. Payroll verifies the accuracy of trial balance & errors are corrected
10. Payroll & DIT goes through a confirmation process in PeopleSoft
11. Check/deposit advice is printed, endorsed & sealed

KEY OF PAYROLL PROCESS PARTICIPANTS

■ City Departments	■ Dept of Information Technology
□ Payroll Division	■ Dept of Human Resources

Source: KPMG Summary of Payroll Cycle 2002, updated through interviews with city staff.

The Department of Human Resources (DHR) creates and maintains employee records and authorizes all transactions that affect employee status, such as hires, transfers, promotions, demotions, terminations, and changes in pay rates or pay ranges. Individual departments initiate most of these transactions, while timekeepers and supervisors in each department record and approve employee time and attendance information for each pay period. The payroll division in the finance department's Bureau of Employee Benefits assembles this information, enters it into PeopleSoft (the city's payroll system), and authorizes production of paychecks and direct deposits. The division manages payment and reporting of state and federal taxes withheld, as well as deductions and payments for various employee benefit plans. The Department of Information Technology produces checks and deposit advices for distribution.

The payroll division has 11 positions, and its 2004 expenditures were about $434,000. In addition, the Department of Human Resources estimates that five of its employees have primary duties that affect the payroll process.

Payroll Process Is Complex, Manual and Labor-Intensive

The city paid nearly $343 million in wages and salaries in 2004 using multiple pay plans, pay date schedules, benefit plans, and deductions. In addition, requirements and policies regarding work hours vary for different groups of employees. The inherent complexity of the city's payroll is compounded by a labor-intensive process that requires duplicate manual recording and data entry.

The city uses six different salary schedules: one salary schedule for corrections, one for fire, one for police, one for judges, one for executives, and one for all other general government employees.

In addition to multiple salary schedules (what employees are paid), the city uses six different pay schedules (when employees are paid). In most weeks, the city runs three different payrolls, with a fourth payroll once a month (See Exhibit 2 on the next page). City services are provided from several locations, so there are dozens of "pay locations" to which paychecks and deposit advices are delivered. In July 2004, checks and advices were distributed to 105 pay locations throughout the city.

EXHIBIT 2

CITY PAY GROUPS			
	PAY FREQUENCY	**PAY DAY**	**EMPLOYEES**
Group 1	Biweekly	Every other Wed (alternates with group 3)	Police
Group 2	Weekly	Every Friday	Sanitation
Group 3	Biweekly	Every other Wed (alternates with group 1)	General
Group 4	Biweekly	Every other Fri (alternates with group 6)	General
Group 5	Monthly	Last Friday	City Council
Group 6	Biweekly	Every other Fri (alternates with group 4)	Fire

Source: Payroll division records

City paydays are staggered because time and attendance reporting is a time-consuming manual process. Each pay period, employees fill out paper time sheets, department timekeepers consolidate this information on another paper form, and payroll division staff manually enters the data into PeopleSoft at least twice, with numerous manual review and approval steps along the way. (Each department's specific process may vary somewhat.) A 2002 review found as many as 58 employees spent 94,000 hours annually inputting payroll-related data.[2]

Time and Attendance Automation Has Begun

The city has begun implementing Kronos—an automated system for recording employee attendance, work hours, and use of leave time. Use of the Kronos system began with the fire department in March 2005 and was started in all departments by the end of 2005, although the city was still relying on manual processes to complete payroll. Automated time and attendance reporting was one of the major recommendations of the 2002 process review of city human resources functions, conducted by Cooperative Personnel Services. Use of Kronos will eliminate the manual recording of work hours and leave time by departmental timekeepers and data entry of the same information by payroll staff in the finance department, which should simplify payroll processing and improve accuracy of hours worked and

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[2] 2002 process review of city human resources functions conducted by Cooperative Personnel Services, http://www.atlanta.web/dit-projects/Kronos/FAQ/FAQ.htm

leave balances. We made several recommendations in February 2005 to ensure employees' abilities to edit and approve records were implemented appropriately. The Kronos implementation team agreed with our recommendations. (See appendix 1.)

Laws and Regulations Govern Pay Rates, Work Hours, and Leave Time

Sections 114-121 to 114-138 of the city Code of Ordinances establish the pay plan for city employees. The city council must approve additions, deletions, or changes to the pay plan. The city's policies on work hours, attendance, and leave time are outlined in the city Code of Ordinances, sections 114-411 to 114-429. Payroll policies and practices are also subject to provisions of federal law, including the Internal Revenue Code (IRC) and the Fair Labor Standards Act (FLSA) and related administrative regulations. The IRC sets forth income reporting and tax withholding requirements that employers must follow. The FLSA governs work hours and pay practices for employees who are covered by its provisions and defines employee groups who are not covered.

Audit Objectives

This report addresses the City of Atlanta's payroll processes and controls. It was designed to answer the following questions:

- Are payroll duties and functions adequately separated to limit opportunities for fraud and abuse? This objective includes assessing whether system access problems reported in the March 2004 pension audit have been corrected.

- Are controls sufficient to prevent fictitious employees from being added to the city's payroll? This objective includes in-person verification of employee identification, as requested in Council Resolution 04-R-0366 adopted in March 2004.

- Are payments for overtime, compensatory time, and compensated absences accurate and in compliance with relevant laws and regulations? We added this objective because our analysis for the first two objectives suggested the need for audit work in this area.

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards except for completion of an external peer review.[3] We conducted our audit field work from December 2004 through April 2005. The audit covered payroll payments made to 11,273 city employees from January 2002 through July 2004. Our scope included over 560,000 payroll transactions totaling $826.9 million (gross). The audit methods included:

- Surveying and interviewing staff involved in updating, recording, and distributing payroll in all departments.

- Documenting and flowcharting payroll procedures, control points, and PeopleSoft access.

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices and expected controls in payroll processing.

- Conducting data analysis, in-person verification, and follow-up tests to check for fictitious employees on the city's payroll.

- Verifying the fund and department account numbers assigned to 60 randomly selected positions created by city ordinance between January 2002 and July 2004.

- Analyzing payroll data to assess compliance with the city Code of Ordinances, administrative policies and procedures, and the Fair Labor Standards Act.

We issued two interim reports during the course of the audit. The first, submitted February 28, 2005 to the Kronos implementation team, made recommendations on configuring the Kronos system to limit the potential for unauthorized changes to time and attendance information. The second, submitted March 3, 2005 to the chief financial officer, controller, and the Department of Human Resources commissioner, made recommendations to correct employee records containing mismatches between social security numbers and employee names and to reduce the likelihood of such errors in the

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[3] Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned for 2006.

future. The two interim reports are in Appendix 1 and Appendix 2, respectively, of this report.

Findings and Analysis

Noncompliance Costs the City

The city has administered overtime, compensatory time, and leave accruals inconsistently – and in some cases in apparent conflict with federal law or city code – resulting in overpaying some employees and underpaying others. These errors are costly to the city and treat employees inequitably. Many employees have been paid for leave they did not earn, some employees were paid overtime or compensatory time when they were not entitled to it, and others who appear to have been entitled to overtime or compensatory time based on their FLSA classification and hours worked recorded in the payroll system did not receive it. Weak controls in the PeopleSoft payroll system and lack of monitoring by the Payroll division and Department of Human Resources have allowed these conditions to occur.

City Didn't Consistently Follow Rules on Overtime and Compensatory Time

Some nonexempt employees were not paid overtime or compensatory time when it appears they were entitled to it. Between January 2002 and July 2004, 611 nonexempt employees were not paid overtime or compensatory time for additional hours worked and 37 nonexempt employees were not paid for unused compensatory time when they left city employment. Federal law establishes rules for paying overtime and compensatory time. The city may have underpaid these employees between $30,800 and $100,800, depending on whether they are correctly classified under federal rules.

Some exempt employees were inappropriately paid overtime or paid for unused compensatory time at a cost of over $500,000 to the city. Departments have inconsistently applied the city's policy for compensatory time for exempt employees.

Nonexempt employees who appear to have been entitled to overtime pay or compensatory time did not get it. Overtime was not credited to 600 nonexempt employees who reported more than 80 hours worked in a biweekly pay period and 11 nonexempt sanitation workers who reported more than 40 hours in a weekly pay period. Eighty-five percent (519) of these 611 employees were from the Department of Parks, Recreation, and Cultural Affairs (DPRCA). The FLSA exempts seasonal recreational employees under certain

conditions. However, DPRCA staff showed no awareness of FLSA exemptions for seasonal/temporary employees, and payroll records showed these employees classified as nonexempt from the FLSA. In addition, DPRCA staff cited a lack of funds as the reason some of their employees were not paid overtime. The Department of Human Resources should review these positions to determine if they meet the conditions to be considered exempt under the FLSA.

The Fair Labor Standards Act (FLSA)

The FLSA overtime provision requires that nonexempt employees' pay is one and one-half the regular rate of hourly pay for each hour worked that exceeds forty hours per week. The FLSA divides employees into "exempt" and "nonexempt" workers. Exempt employees are not covered by the overtime provisions. They can be expected to work more than forty hours per week without additional compensation. Title 29, Part 541 of the Code of Federal Regulations defines exempt employees as those who spend more than 50 percent of their time performing executive, administrative, or professional duties. The FLSA allows public sector employees to receive compensatory time off in lieu of overtime compensation. To be legal under the FLSA, compensatory time must be 1.5 hours for each hour worked.

Source: Fair Labor Standards Act and Code of Federal Regulations

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It is unclear how many of the employees are due overtime or compensatory time since some could have been incorrectly classified as nonexempt from the FLSA. If all of the employees were correctly classified as nonexempt, the employees were underpaid by $80,200 by not receiving overtime pay or compensatory time at a rate of time-and-a-half. If the 519 DPRCA employees should have been exempt from FLSA, the remaining 92 nonexempt employees may have been underpaid $10,229 by not receiving overtime pay at a rate of time-and-a-half (assuming that none of these employees were misclassified as nonexempt from the FLSA).

Nonexempt employees have not been paid for unused compensatory time, in conflict with federal law and city code. Our review identified at least 37 nonexempt employees (excluding police) who did not receive a compensatory time payout when they left city employment. The dollar amount of the unused compensatory time that should have been paid to these employees totaled $20,615. The FLSA requires employers to pay nonexempt employees for unused compensatory time when they are terminated. Additionally, city policy allows nonexempt employees who are not allowed to take

compensatory time off in the year earned to be paid for the compensatory time. We identified approximately 170 employees who were paid for unused compensatory time, which is correct pursuant to the FLSA and city policy.

City practices on compensatory time for nonexempt employees may conflict federal law. FLSA regulations limit accrual of compensatory time to 480 hours for sworn personnel (police, fire, or corrections) and 240 hours for non-sworn personnel. Personnel who reach the accrual limits must either be paid for additional hours of overtime worked or use some compensatory time before accruing more. We found several nonexempt employees who exceeded the FLSA limit in each of the years we reviewed. They were not paid the required overtime, but rather continued to accrue compensatory time. Exhibit 3 summarizes our results.

EXHIBIT 3

COMPENSATORY TIME BALANCES OVER FLSA LIMITS 2002 THROUGH 2004						
Type of Employee (FLSA Limit in hours)	**2002**		**2003**		**2004**	
	Number of employees	Dollar Amount (a)	Number of employees	Dollar Amount (a)	Number of employees	Dollar Amount (a)
General (240)	15	$18,702	9	$7,707	6	$8,143
Public Safety (480)	2	$1,130	1	$1,213	1	$853
(a) Amount that should have been paid as overtime						
Source: PeopleSoft compensatory time balances						

The city should continue to review its classification of employees as nonexempt or exempt and make needed corrections. With some exceptions, positions with pay grades below 19 have been nonexempt, while those at 19 and above have been exempt). Title 29, Part 541 of the Code of Federal Regulations defines exempt employees as those who spend 50 percent of their work time performing administrative, executive, or professional duties. These regulations were amended in 2004 to define the criteria for exempt employees as follows:

- Administrative employees' primary duty must consist of the performance of office or non-manual work directly related to management policies or general business operations of their employer or their employer's customers.

- Executive employees must meet at least two requirements: (1) their primary duty must be management and (2) they must regularly direct the work of at least two other employees.

- Professional employees' primary duty must consist of (1) work requiring advanced knowledge in a field of science or acquired customarily through a prolonged course of specialized instruction or (2) work original and creative in character in a recognized field of artistic endeavor.

In 2005, the Department of Human Resources completed its review of city classifications and positions for FLSA compliance, changed the status of some positions and issued administrative policies based on the revised regulations. Seasonal recreation positions in the Parks Department, however, were still classified as nonexempt. The Department of Human Resources should review these positions to determine which ones should be changed to exempt status. In addition, DHR should ensure that all FLSA classifications are recorded correctly in the HR/payroll system before it is replaced by the Oracle ERP system in 2007.

The city's method for recording holidays in the payroll system prevents verification of overtime in weeks with holidays. The FLSA, city Code of Ordinances, and city policy require that overtime be credited for actual hours worked in excess of 40 hours per week. Hours paid but not worked – such as for leave or holidays – do not count toward the 40 hours. The city's method for recording holidays in the payroll system prevents system verification of overtime owed to an employee within the system. The city uses the same pay code in PeopleSoft to record a holiday whether an employee worked on the holiday or not, so it is impossible for the payroll division to determine when overtime pay rates are applied correctly in weeks with holidays.

Exempt employees received overtime payments. From January 2002 to July 2004, at least 378 employees (excluding sworn officers from fire, police, and corrections) classified as exempt from the FLSA received overtime payments. According to the FLSA, only nonexempt employees are entitled to overtime. In addition, Section 114-423 (b) of the city Code of Ordinances states, "exempt employees are not eligible for overtime pay". We provided the list of employees to the Department of Human Resources to review and they concluded that the FLSA classification of 300 employees was incorrect in PeopleSoft and 78 employees were correctly classified as

exempt but were mistakenly or intentionally paid overtime. Overtime payments to these employees totaled $481,889.

Exempt employees received pay for unused compensatory time after termination dates. From January 2002 to July 2004, at least six exempt employees received payments totaling $18,552 for their unused compensatory time when they left city employment. There are no provisions in the city's policies or in the city Code of Ordinances for paying exempt employees for compensatory time not used. We identified 206 exempt employees who had 5,620 hours of compensatory time when they left city employment but appropriately did not receive a payment for their unused compensatory time.

Policy requires off-the-books compensatory time; provisions not enforced. City policy, which became effective in June 2003, states *"employees at pay grade 30 and above should not submit requests to accrue formal compensatory time. When an employee at one of these pay grades works beyond regularly scheduled hours, the department head may approve the employee to "bank" those hours and take an equivalent amount of time off at a later date. Internal records will be kept to document the "banking" and use of time. The employee will not accumulate more than 160 of these hours."*

"Informal" record-keeping defeats the purpose of having a policy – to manage resources and consistently apply rules. Further, departments have not consistently followed this policy. About 27 percent of employees at pay grade 30 or above had compensatory time posted to PeopleSoft in 2004. We surveyed payroll clerks in most departments and found wide variation in how departments administer compensatory time for exempt employees. Some departments have kept informal records of compensatory time earned but post compensatory time used in the PeopleSoft system, which results in negative compensatory time balances in the city's records.

The city should limit overtime to nonexempt employees and limit exempt employees who can earn compensatory time. The city Code of Ordinances prohibits overtime for exempt employees, but allows them to take compensatory time. Because the purpose of the FLSA is to regulate employers' treatment of nonexempt employees, paying exempt employees overtime or compensatory time does not violate the FLSA. However, providing benefits above what is required by the FLSA is an unnecessary cost to the city, has contributed to other payroll errors, and – since the benefits are provided inconsistently – results in inequitable treatment

among exempt employees. Responses to an informal survey of local government auditors suggest that it is unusual for local governments to grant department heads and senior executives compensatory time. In order to standardize and streamline processes while implementing the new payroll system, we've already recommended the city eliminate compensatory time off for department heads (and other senior staff as defined by the administration), and revise the administrative policy on compensatory time for exempt employees, accordingly. The commissioner of human resources disagreed with the recommendation. We continue to think it is impractical and perceived by some as inappropriate to track hours and record compensatory time for senior executives, but recognize that unusually high demands on their time may occur often. Therefore we recommend the chief operating officer explore alternatives to compensatory time for department heads and other senior executives, such as additional accrued vacation or discretionary personal days. We also recommend the commissioner of human resources eliminate informal recording of compensatory time earned for employees in pay grade 30 and above. To ensure fair treatment of employees and the ability to manage resources, compensatory time for eligible exempt employees should be consistently tracked and recorded.

The city must improve controls over overtime and compensatory time. We've already made several recommendations in our *Pre-Implementation Review of the ERP System* to configure the new payroll system to improve accuracy, including:

- Configuring the payroll system to prohibit overtime pay for exempt employees.

- Configuring the payroll system to ensure that overtime is paid to nonexempt employees who work more than 40 hours in a week.

- Configuring the payroll system to ensure that overtime is not paid if the number of regular hours worked in a week is less than 40.

The Kronos system and the Oracle ERP implementation should prevent these problems from occurring in the future. In addition, the new payroll system should establish separate pay codes for holidays worked and for holidays not worked. Department timekeepers and supervisors should be trained to observe city overtime and

compensatory time payroll policies. The chief financial officer should periodically run and review payroll reports to ensure adherence to the policies.

Many Employees Have Been Paid for Leave They Did Not Earn

Weak internal controls along with a lack of enforcement of city policies and the City Code of Ordinances has led to employees being paid for sick, vacation, compensatory, and donated leave they did not earn at a cost of more than $670,000.

Employees must have leave available to be paid for absences. The city Code of Ordinances stipulates that annual leave with pay shall not be allowed in advance of being earned; therefore, employees should not be permitted to carry a negative vacation leave balance. Likewise, employees should not be permitted to carry a negative compensatory time balance. The city Code of Ordinances allows an employee to receive advanced sick leave if the employee, because of a protracted illness, has used all accumulated sick leave and vacation leave. The city Code of Ordinances requires that advanced sick leave be charged against accrued vacation leave (exclusive of five days per year). Therefore, employees should not have negative sick or reserve sick leave balances, even in cases where they received advanced sick leave.

When an employee has exhausted all leave balances including advanced sick leave because of a severe illness or injury, the employee may be granted leave without pay or may be eligible for the city's voluntary shared leave program (donated leave). To receive donated leave, an employee must (1) be a permanent employee, with a current "effective" or better overall performance rating (2) provide medical verification, and (3) be approved for donated leave by their supervisor. The employee's department head must approve the donated leave request, which then must be approved by both the Department of Human Resources and the Department of Finance. Donated leave recipients can receive no more than 2,080 hours of donated leave from the date of approval (sworn members of the Atlanta Fire Department can receive no more than 2,756 hours).

Employees' sick leave, vacation, and compensatory time balances were below zero. At the end of 2004, 300 employees had negative sick leave balances of one or more hours, and 21 had negative reserve sick leave balances of one or more hours. The dollar amount of the negative sick and reserve sick balances totaled

$456,065. In addition, 386 employees had negative compensatory time balances of one or more hours (174 employees had negative compensatory time balances of 10 or more hours), and 41 employees had negative vacation leave balances of one or more hours (7 had negative vacation leave balances of 10 or more hours). The dollar amount of the negative vacation and compensatory time balances totaled $145,189. We also identified 74 employees with negative balances (of one or more hours) in compensatory time, vacation, sick, or reserve sick leave when they left city employment. The dollar amount of these balances totaled $71,701. Exhibit 4 summarizes these findings.

EXHIBIT 4

EMPLOYEES WITH NEGATIVE LEAVE BALANCES 2004 YEAR END		
DESCRIPTION	**DOLLAR AMOUNT**	**NUMBER OF EMPLOYEES**
Active	$601,254	700
Terminated	71,701	74
Total:	**$672,955**	**774**
Note: All employees with a negative balance of 1 or more hours		
Source: PeopleSoft Leave Balances		

Repayment policy not enforced. The current city policy is to seek repayment of advanced sick leave from employees who leave city employment by deducting the amount owed to the city from the employees' retirement checks. Our review of 28 employees with a negative sick leave balance of over 200 hours when they retired between January 2002 and July 2004 found the total amount of leave owed by these employees was $114,119. Most of these employees (22 of 28) had received advanced sick leave, which is required by the city Code of Ordinances to be repaid. However, only $33,819 could be verified as deducted from the employees' retirement checks. In addition, when deductions were made, corresponding adjustments were not made to the employees' leave accruals. Consequently, these employees would find they still had negative leave balances if they returned to city employment.

The payroll system should be configured to prohibit employees from using leave that has not been earned, appropriately advanced or

donated. When employees leave city employment without paying back advanced sick leave, prompt repayment through the employees retirement account should be sought.

Weak Controls over Donated Leave Have Allowed Errors and Abuses

Incomplete documentation, inconsistencies between PeopleSoft records and Department of Human Resources (DHR) records, and the commingling of donated leave with compensatory time have led to noncompliance with city ordinances on administering donated leave. Because donated leave is difficult to administer and may be perceived as inequitable, the chief financial officer and commissioner of human resources should evaluate alternative ways to assist employees with protracted illness or serious injury, such as a catastrophic leave pool and options for short-term disability coverage.

Employees received donated leave before exhausting other leave balances. We identified 15 employees who had a positive leave balance in either sick, vacation, advanced sick, or reserve sick leave when they received donated leave. The dollar amount of the donated leave received by these individuals totaled $242,565. Section 114-429 of the city Code of Ordinances mandates that to be eligible to receive shared leave employees shall have exhausted all leave and advanced sick leave. Employees who receive donated leave continue to accrue vacation and sick leave. Additional donated leave is granted before these leave balances are once again exhausted. Once terminated, these employees are able to receive payments for unused vacation leave. For example, we identified an employee who received donated leave until the last day of employment and received a payment for 249 hours of unused vacation leave for $4,555.

Individual limits on donated leave were exceeded. We also identified three employees who received more than 2,080 hours of donated leave, which violates the city Code of Ordinances. Section 114-428 of the city Code of Ordinances stipulates that an employee may receive no more than 2,080 hours of donated leave per occurrence of severe illness or injury. These three employees were given (collectively) 932 more hours of donated leave than allowed or $13,572 in excess donated leave.

Unused donated leave should have been forfeited. We identified 3 employees who were paid for unused donated leave when

they left city employment. These three individuals were paid $5,363 in leave pay that they were not entitled to. Section 114-429, of the city Code of Ordinances states that "unused donated leave shall not be credited to the leave recipient's accrued or earned leave balances, or pension account. Any unused leave shall be forfeited." However, because donated leave is commingled with compensatory time in the PeopleSoft payroll system and the city is required to pay nonexempt employees for unused compensatory time when they leave city employment, there is no control to prevent payments for unused donated leave.

Records are inadequate to account for donated leave. We reviewed the personnel files of 15 employees who received donated leave and could not locate any donated leave documentation for 4 employees. Therefore, $59,339 of donated leave was paid without any documentation. Of the 11 employees with documentation, we could not verify that 17 (6 percent) of the 301 donations received were deducted from the leave balances of the employees who donated the leave. The dollar amount of these donations was $18,711. Section 114-429, of the city Code of Ordinances states that "an employee who desires to donate leave shall complete a voluntary shared leave form designating the recipient of the leave and the amount and category of leave to be donated."

Donated leave is difficult to administer and will continue to require manual tracking once the city's ERP system is implemented. We recommended in our *Pre-Implementation Review of the ERP System* that the city discontinue the donated leave program and explore options for short-term disability coverage instead. The commissioner of human resources disagreed with our recommendation. We can't tell exactly how many employees used donated leave during our review period because of the way it is recorded in the payroll system. DHR reports that 56 people received donated leave during 2002 to 2004. We recognize that donated leave affects few employees and recipients of donated leave face difficult circumstances. Because we found errors in most cases we reviewed, we continue to think that the city could meet employees' needs and simplify administration by evaluating other ways to assist employees with protracted illness or serious injury. Options to explore include the use of a catastrophic leave pool to replace donated leave, as well as options for short-term disability coverage. A leave pool would receive donations from employees and be used by employees who meet clearly established criteria.

Slow Data Entry and Other Errors Resulted in Additional Overpayments

Misclassification of employees as permanent or temporary employees, slow entering of personnel data into the payroll system, and data entry mistakes led to overpayments of about $143,000.

Employees were paid after their termination date and temporary employees received holiday pay. Departments document personnel changes (terminations, new hires, promotions, etc) by completing turn-around documents (TAD) and submitting them to DHR for processing. However, departments delay sending TADs to DHR, sometimes for several months. This time lag presents an opportunity for employees to receive pay after they are terminated or for temporary employees to receive holiday pay and other paid leave. The city code of ordinances prohibits temporary employees from receiving holiday pay, sick leave, and vacation leave.

- 53 employees received $76,688 in regular pay 20 or more days after their termination dates.

- 30 employees were terminated before a city holiday, but were paid for the holiday because the holiday fell in their final pay period. Payments to these employees totaled $4,347.

- 52 employees received $12,004 for holiday pay, sick leave, or vacation leave after their status changed from regular to temporary.

Vacation carry-over rule wasn't consistently applied. The city code prescribes maximum annual leave "carry-over" amounts described in Exhibit 5. Employee leave represents a financial liability that the city should manage. In addition, allowing unlimited accrual of vacation time while providing payments for unused vacation time at the end of employment creates an incentive for employees to misuse leave (e.g. using sick leave for non medical related purposes).

Ordinances 01-O-1725 and 03-O-1699 increased the maximum vacation carryover limit to 560 hours from 2002 through 2005. These ordinances replaced the vacation carryover limits set by the Code (see Exhibit 5). City staff reset employees' vacation balances consistently with the carryover limits at the beginning of 2002, 2003, and 2005 but not in 2004. At the beginning of 2004, 212 employees had vacation balances greater than 560 hours. At least nine of these

employees subsequently left city employment and were overpaid $16,692 for unused vacation leave.

EXHIBIT 5

ANNUAL LEAVE ACCRUAL SCHEDULE		
CONTINUOUS SERVICE	**DAYS ACCRUED**	**ACCRUAL (CARRY OVER)**
0 to 5 years	12 Days	25 Days
5 to 10 years	15 Days	25 Days
10 to 15 years	18 Days	35 Days
15 to 20 years	21 Days	35 Days
20 Years & Up	25 Days	45 Days

Source: Section 114-415 of the city Code of Ordinances

Other payments were made in error. We found 7 other payments that appear to have been made in error in our review of payroll records from January 2002 to July 2004. These errors included employees paid twice for their vacation pay-out and for an excessive number of regular hours (400) for a 2-week pay period. These overpayments totaled $33,535. We referred these instances to the payroll division in April 2005. Staff should further investigate and ask the employees to repay amounts paid in error.

Timely processing of personnel records, payroll system controls, and the consolidation of payroll pay groups is needed. We've already made recommendations in our *Pre-Implementation Review of the ERP System* to configure the new system to reduce errors. These include:

- establishing effective dates for temporary positions in Oracle;

- setting the default for temporary employees to be ineligible for benefits;

- creating an employee termination checklist in Oracle;

- preventing transactions that would result in a negative leave balance;

- establishing data validation checks to prevent leave accrual from exceeding authorized limits.

We also recommended that the city consolidate payroll pay groups into as few groups as possible. The payroll division is continuously processing different payrolls on different dates. Consequently, the payroll division's staff has little time to validate processing, run and examine exception reports, or do other payroll duties to help ensure the accuracy of payroll or to implement better controls to reduce the likelihood of payroll abuses. Consolidating payrolls so that everyone is paid on the same schedule will not only free up valuable human resources in the payroll division, but it will also streamline the payroll process leading to fewer inconsistencies and errors when processing payroll.

System Loopholes Could Allow Fictitious Employees on the Payroll

While we found no fictitious employees, weak controls could allow fictitious employees to be on the payroll and go undetected. Positions appear to be assigned to the proper fund and department.

No Fictitious Employees Were Found in Sample of 310

We found no fictitious employees in our review of all payroll transactions from January 2002 to July 2004. However, the opportunity to create fictitious employees exists because employees can (1) have multiple identification numbers, (2) be paid without having a valid social security number, and (3) occupy the same position at the same time as other employees. We found:

- 8 employees had multiple employee identification numbers in PeopleSoft.

- 13 employees received 19 payments that were processed without a social security number being recorded in PeopleSoft. One payment was found with a social security number of 999-99-9999.

- 190 employees occupied the same position at the same time as other employees for more than two pay periods.

The payroll system should be configured to prevent (1) the same person from being assigned more than one employee ID number, (2) payments from being processed without a social security number

or an obviously fake social security number, and (3) multiple people occupying the same position at the same time.

We submitted a list of nearly 25,000 present and past city employees to the Social Security Administration (SSA) for name and Social Security Number (SSN) verification. The SSA found that 1,534 city records did not match their records. Of these, 518 were a mismatch because the name and SSN did not match. We communicated the results of the tests to the Department of Finance and the Department of Human Resources in an interim audit report dated March 3, 2005. (See Appendix 2.)

We verified the identities of 310 city employees in December 2004. We selected employees using a complex risk analysis based on discrepancies in payroll records from January 2002 to July 2004. In this sample, we found 143 employees (identified by the SSA) where (1) the name did not match the SSN, (2) the gender did not match the SSN, (3) the SSN had not been issued, (4) or the SSN was not on file with the SSA.

City Had No Process for Detecting Invalid or Fraudulent Social Security Numbers

Besides allowing opportunities for creation of fictitious employees, recording invalid social security numbers could enable tax evasion or fraud. The city could be liable for IRS penalties for incorrectly reported social security numbers.

The city must report all wages earned by city employees to the IRS. The IRS can impose penalties if the number of incorrectly reported SSNs for a tax year exceeds 10 or 0.5% of the information returns required to be filed. Of the 11,273 employees employed for at least some time between January 1, 2002, and July 31, 2004, 291 employees (2.6 percent) had city records that did not match SSA records. The IRS can fine the city up to a $50 penalty on each incorrect SSN submitted to the IRS. The city was fined $5600 in 2002, but this fine was retracted.

To avoid future fines, the city should contact all current employees who have name mismatches, and request that they complete IRS form W-9 (or a substitute as long as it is substantially similar to form W-9).

We recommended in March 2005 that to prevent future SSN discrepancies from occurring, the city should use the SSA's Employee Verification Service (EVS) to verify that the name and SSN provided by new hires match the SSA's records. Additionally, the city should not allow employees to change their name in personnel or payroll records until they provide a copy of the new social security card with the updated information. DHR has adopted policies aimed at implementing our recommendations.

Current and past city employees used fraudulent social security numbers. We found two employees who were using a SSN that was being used by multiple people. These two employees were identified by the SSA as using a SSN that did not match their names. One employee quit city employment rather than have our office verify his SSN, and the other had already left city employment. We identified a third city employee, who worked for the city in 2001 and used the SSN of his deceased mother while working for the city. We reported these instances to the SSA's allegation management division.

New Positions Were Recorded in Correct Funds and Departments

We randomly selected 60 positions that were created by city ordinance (position ordinances passed from January 2002 through July 2004) and reviewed the accounts assigned to these positions in PeopleSoft to determine if the positions were assigned to the correct fund and department as specified by the city ordinance. All positions we examined were assigned to the proper fund and department.[4]

Some Employees Continued to Have Inappropriate Access to Payroll Data

In a payroll environment, the tasks associated with creating master records, updating those records, and processing payroll should each be assigned to different employees. In February 2005, the city had not yet corrected the overly broad access to system files that we first reported in the March 2004 pension audit. Departmental staff members are also performing incompatible payroll duties.

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[4] The number of records reviewed provided our office with a 95 percent degree of assurance that the probability of occurrence is five percent or less that the fund and department specified by city ordinance does not match the fund and department assigned in PeopleSoft.

The City Failed to Correct Overly Broad Access That Allowed Pension Fraud

We reported in our March 2004 performance audit, *Pension Division Payments to Deceased Pensioners*, that the security classes assigned to pension and payroll employees allowed too many individuals too much access in the PeopleSoft system. At the time, 23 city employees had access to master files, master file maintenance, and payroll transactions. Such access allows a single individual to create a master record for an employee, change and update that record, and process payroll. We recommended that PeopleSoft access for each employee be restricted to only one major function.

We reviewed PeopleSoft access in February 2005 and found that 23 city employees still had access to too many functions. Since the pension audit, 7 users either (1) had their access reduced so that they only have access to essential job functions, or (2) the employee left city employment. However, eight more users' access has been increased – giving them too much access to maintain a proper control environment. The city should limit employees' payroll responsibilities and system access to a single function.

Staff in Some Departments Has Too Much Access to Manual Payroll Records

We surveyed each of the city's pay locations to determine the employees responsible for adding and removing individuals to the payroll list, updating that list, and distributing checks and direct deposit advices to employees. We reviewed payroll division records to confirm the departments' responses to the extent possible.

Department staff members are performing too many payroll duties:

- three pay locations had the same person maintain, administer, and distribute payroll;

- one location had the same person prepare and approve payroll; and,

- one location had the same person prepare and approve turn around documents (TADs), which are used to make changes to the department's payroll.

When the same individual can both make changes and approve them, it creates an opportunity for unauthorized changes and undetected errors. Separating these duties is considered an effective control. For instance, the task of preparing and approving TADs should not be done by the same person. Likewise, the tasks of preparing, approving, and distributing payroll should not be done by the same person.

City Should Replace Payroll Checks with Direct Deposit and Other Options

The city has 1,156 unclaimed payroll checks totaling $469,071. According to the State of Georgia's unclaimed property laws, the city could be fined up to $122,268 for not remitting the unclaimed checks to the state in a timely manner. Direct deposit and other options to avoid producing payroll checks should be encouraged to prevent this problem from occurring in the future. Direct deposits also reduce administrative costs and reduce the risk of fraud.

City Is Liable to State for Unclaimed Payroll Checks

As of December 31, 2004, the city had 1,156 uncashed payroll checks issued from January 2000 through December 2003, totaling $469,071. State law treats unclaimed payroll checks as abandoned property (O.G.C.A. 44-12-206) that must be remitted to the state (O.G.C.A. 44-12-214). The city can be fined 25 percent of the value of the unremitted property and $100.00 per day up to $5,000 for each day the unclaimed property is willfully withheld from the state.

In addition to the city's liability to the state, the unclaimed checks were still outstanding according to the city's accounting system (MARS/G). Checks are considered expired after 180 days and should be canceled from the system after expiration. The Department of Finance is working with the Department of Information Technology to clear expired checks from the MARS/G system.

The payroll division transfers all unclaimed checks to the controller's office at the end of each year for remittance to the state of Georgia. However, the accountant who received the checks was not aware of the state requirements and stored the checks while working on a process to identify and clear uncashed checks from MARS/G.

Payroll should research unclaimed checks to see if the owners are still employed by the city, or if they can contact them. If they are unable to contact these individuals, the payroll division and the Department of Finance should review the state law (O.C.G.A. 44-12-90 through O.C.G.A. 44-12-235) and develop procedures to handle unclaimed payroll checks. The city should adhere to state regulations and submit unclaimed funds to the State of Georgia in a timely manner. Furthermore, the Department of Finance should continue to work with the Department of Information Technology to identify and clear all expired checks from the system.

Direct Deposit Offers Advantages to the City and Employees

The city pays 27 percent of its regular employees by check, which is costly to administer compared to direct deposit. Studies by the American Bankers Association have shown that processing checks on average cost an organization $1.07 a check, whereas, direct deposits cost $0.05 per deposit. The city issued 102,054 payroll checks from January 2003 through July 2004.

The city and employees can significantly benefit from mandatory direct deposit for the reasons shown in the chart below:

EXHIBIT 6

DIRECT DEPOSIT BENEFITS
(the company electronically deposits funds into its employee accounts)

- Eliminates lost/stolen checks and stop payments
- Direct cost savings
- Much simpler bank account reconciliation
- Elimination of check fraud
- Elimination of unclaimed payroll checks
- Funds are debited from the city's account on a precisely known date
- Funds are immediately available to employee

Source: Government Finance Officers Association

The city should encourage all employees with bank accounts to take advantage of direct deposit and move toward elimination of payroll

checks, except for seasonal and temporary employees and for employees' final paychecks. For those without bank accounts, the city should evaluate costs and benefits of using payroll cards to give these employees access to their funds.

Recommendations

Our recommendations identify improvements that will strengthen the current control environment and introduce more effective management over the payroll process. They build on management initiatives already begun by the commissioner of human resources and city's chief financial officer, and supplement recommendations we already made in interim reports, and our *Pre-Implementation Review of the ERP System*. We modified two recommendations that management disagreed with from these earlier reports.

1. **Continue review of position classifications as nonexempt or exempt and correct errors.** The commissioner of human resources should:

   a. Review FLSA rules on exemptions for seasonal recreational positions to understand which City of Atlanta positions should be re-classified from nonexempt to exempt under this provision, and make the appropriate changes.

   b. Correct errors in exempt/nonexempt status in the HR/payroll system. DHR review of audit findings identified several hundred employees whose positions were coded as exempt or nonexempt in error in the PeopleSoft system. All data corrections should be made before the Oracle ERP system replaces PeopleSoft in 2007.

   c. Notify employees who have been misclassified as exempt or nonexempt from the FLSA overtime provisions and their supervisors and communicate the effect of the misclassification. For example, nonexempt employees who have been mistakenly classified as exempt employees may be owed back pay if they can demonstrate that they worked any hours over 40 hours a week (during the period they were misclassified) and were not paid overtime or given compensatory time at the rate of time-and-a-half.

2. **Limit exempt employees eligible for compensatory time and administer consistently.** The chief operating officer should evaluate alternatives to compensatory time for department heads and other senior executives (as defined by the administration) such as additional accrued vacation or

discretionary personal days. The commissioner of human resources should revise the administrative policy that departments keep informal records of compensatory time for employees at pay grade 30 and above. The new policy should ensure that compensatory time is granted in a consistent, clear, and equitable manner for all eligible exempt employees and that it is approved and recorded appropriately.

3. **Improve controls over overtime and compensatory time.** To correctly provide overtime and compensatory time for nonexempt employees, the commissioner of human resources and the city's chief financial officer should (1) periodically review PeopleSoft reports pertaining to overtime and compensatory time before the new payroll system is implemented (2) train department timekeepers to observe city overtime and compensatory time payroll policies, and (3) consistently enforce city and FLSA guidelines on approval to work overtime, on compensatory time accrual limits, and payments for unused compensatory time above 240 hours for non-sworn personnel and 480 hours for sworn personnel.

4. **Ensure advanced leave is repaid.** The chief financial officer should seek repayment from employees who leave city employment before repaying advanced leave.

5. **Explore use of a catastrophic leave pool and other options as alternatives to the current donated leave program.** The commissioner of human resources and the chief financial officer should evaluate replacing donated leave with a leave pool that would receive donations from employees and be used by employees who meet clearly established criteria. They should also consider other ways to assist employees with protracted illness or serious injury including options for short-term disability coverage.

6. **Comply with vacation accrual limits.** The chief financial officer should ensure vacation balances do not exceed the maximum limit.

7. **Comply with state law on unclaimed payroll checks and move toward eliminating production of payroll checks.** The chief operating officer and chief financial officer should evaluate options for increasing use of direct deposit by employees with bank accounts and providing alternatives such as payroll cards for employees without bank accounts, with the goal of

eliminating production of payroll checks except for seasonal and temporary employees and employees' final paychecks. The city's chief financial officer also should:

a. Develop written policies and procedures for handling and processing unclaimed payroll checks.

b. Submit an Unclaimed Property Report to the State of Georgia Department of Revenue along with the unclaimed payroll checks that are older than 1 year old.

c. Clear outstanding and expired payroll checks from the city's Management Analysis and Response System for Government (MARS/G).

8. **Reduce the Risk of Fictitious Employees.** The commissioner of human resources and the city's chief financial officer should develop procedures to ensure that employees do not have multiple employee ID numbers in the new payroll system.

9. **Segregate Major Job Functions.** The PeopleSoft system and departmental payroll processes should be corrected to give employees appropriate access to personnel records. The city's chief financial officer should:

a. Restrict employees' access to a single function in the PeopleSoft system.

b. Provide guidance to departments to ensure manual payroll duties are divided among staff members. The tasks of preparing and approving TADs should not be done by the same person. Likewise, the tasks of preparing, approving, and distributing payroll should not be done by the same person.

Appendices

APPENDIX 1

MEMO - KRONOS IMPLEMENTATION – EDIT AND APPROVAL ACCESS

CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

CITY AUDITOR'S OFFICE
68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
W. Wayne Woody, Chair
Henry A. Kelly, Vice-Chair
Fred Williams
Mayor Shirley Franklin
Council President Lisa Borders

TO: KRONOS implementation team

FROM: Leslie Ward

DATE: February 28, 2005

SUBJECT: KRONOS Implementation-edit and approval access

As part of the payroll audit, my office has looked at the levels of access planned for the implementation of the KRONOS time management system. Our specific concern was whether edit and approval access are sufficiently separated to limit the potential for unauthorized changes to time and attendance information.

When the same users can both make changes and approve them, it creates opportunity for unauthorized changes, and separating these duties for all but a few users is considered an effective control. Other city systems have allowed some employees access to too many functions, allowing former city employees to commit fraud and posing a high risk of additional fraud. Therefore we suggest the following approach, which we've been told is compatible with the current KRONOS implementation plan:

- All managers (supervisors, managers, directors, bureau heads, commissioners etc.) should only be given approval and edit access to the timesheets of employees who report directly to them, but only approval access to the timesheets of lower level employees who do not report directly to them. For instance, a manager should be able to edit the timesheets of the supervisors who report to him or her, but not those of the employees that report to the supervisors.

KRONOS PERFORMANCE RESPONSE:
Within the current product there is no way to block upper level managers from having edit capabilities to those who are below them hierarchically. The system is currently configured so that supervisors and managers are not allowed to approve their own time sheets.

- Approvals should be required to be entered in sequential order. In other words, a level 1 approval needs to occur before level 2 approvals.

KRONOS PERFORMANCE RESPONSE:
Within the current product there is no way to block this from occurring. However, we have added a column to the view that identifies the manager's name so that it shows who approved and in what order.

MEMO - KRONOS IMPLEMENTATION – EDIT and APPROVAL ACCESS

- Once a higher-level employee (e.g. a manager) has approved a timesheet, a lower-level employee (e.g. a supervisor) should not be able to make edits to the approved timesheet.

KRONOS PERFORMANCE RESPONSE:

This is inherent in the product. Once an upper level manager approves the timesheet, the lower level approver cannot make any more changes nor remove their own approval.

- Payroll central employees should only have approval access, not edit access. Super access should still be given to higher level payroll and human resources personnel, but lower level employees should not have edit access.

KRONOS PERFORMANCE RESPONSE:

Modifying Payroll Central employees to only have approval access is a very simple configuration change. Once requested by the PR Lead, this change will be made. SuperUser access is currently provided only to Kronos Trained employees.

- Payroll central employees should be able to determine that the highest required level (i.e. 2 or 3) of approval has been given before they approve timesheets. Currently, our understanding is that payroll central employees can only determine the number of approvals that have been given.

KRONOS PERFORMANCE RESPONSE:

By having the name of the manager visible to the Payroll Central employees, they will be able to tell who has approved and who has not. However, the Payroll Deputy Director is going to request that the departments provide Payroll Central with a listing of approvers and their hierarchy.

We encourage you to determine whether the above recommendations are in fact reflected in the current KRONOS configuration, and if not, what would be necessary to make these changes now. Please feel free to contact Gerald Schaefer at 404/330-6876 if you have questions or would like to discuss further. You can reach me directly at 404/330-6804.

Distribution:
Dave Edwards, Mayor's Office
Lepora Manigault, Mayor's Office
Janice Davis, CFO
Ray Zies, City Controller and Acting Director of Employee Benefits
Michael Eboka, Department of Finance
Benita Ransom, Department of Human Resources
Felita Jones, Department of Human Resources
Linda DiSantis, City Attorney
Adam Smith, Department of Procurement
Abe Kani, CIO
John Hudson, Department of Information Technology
Sami Hall, KRONOS Project Manager

APPENDIX 2
MEMO - PAYROLL AUDIT and SOCIAL SECURITY NUMBERS
INTERIM AUDIT REPORT

CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

CITY AUDITOR'S OFFICE
68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
W. Wayne Woody, Chair
Henry A. Kelly, Vice-Chair
Fred Williams
Mayor Shirley Franklin
Council President Lisa Borders

TO: Janice Davis, CFO; E. Ray Zies, Controller; and Benita C. Ransom, DHR Commissioner

CC: Felita Jones, Information Systems Manager

FROM: Leslie Ward

DATE: March 3, 2005

SUBJECT: Payroll Audit and Social Security Numbers—Interim Audit Report

This memo summarizes the audit work my staff has performed on social security number (SSN) and employee verification, and also provides guidance on the corrective action the city should begin implementing to resolve the high number of errors found. Implementing our recommendations now may help the city reduce or avoid future penalties from the Internal Revenue Service (IRS).

As part of the payroll audit, my office submitted a list of present and past city employees to the Social Security Administration (SSA) for name and SSN verification. A total of 24,784 records were submitted. The SSA found that 1,534 city records (1,505 individuals) did not match their records. For each mismatch, the SSA assigned a verification code which identified the cause of the discrepancy. The SSA found:

Number of Records	Reason	SSA Verification Code
518	Name did not match the SSN	5
451	Gender did not match	2
430	Date of birth did not match but the name and gender did	3
119	SSA had a different SSN on file which the SSA provided	*
10	SSN not on file, the SSN was never issued to anyone	1
6	Name matched but the date of birth and gender did not	4

The individuals are listed on schedule 1. Please let me know if you would like these files electronically. The records with the verification code "*" appear to be a result of data entry errors, as the SSN on file with the city only varies by one or two digits from the SSN on file with the SSA.

MEMO - PAYROLL AUDIT and SOCIAL SECURITY NUMBERS
INTERIM AUDIT REPORT

We used the SSA verification results to perform additional audit work. We focused on records in which the name did not match the SSN (code 5, 518 records), and records in which the SSN had not been issued (code 1, 10 records).

For the 10 records in which the SSN had not been issued (code 1), we reviewed each individual's personnel file to determine why the SSN of these employees did not match the SSA's records. We found the following:

- Two records listed the individual's taxpayer identification number (ITIN) as their social security number. The IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number but do not have, nor are they eligible to obtain, a SSN.
- Two records had an incorrect SSN. A copy of the social security card was in the file but the number was transcribed incorrectly on personnel forms.
- Two records had incorrect SSNs due to data entry errors in PeopleSoft.
- We could not verify SSN accuracy for the remaining four records since the records were either destroyed, could not be located, or did not contain a copy of the social security card.

In December 2004, we verified the identities of 310 city employees. These employees were selected on the basis of a complex risk analysis that identified discrepancies in payroll records. In the sample, we verified 143 employees[1] who the SSA identified as having the following discrepancies (some employees had more than one discrepancy):

- 136 employees with records in which the name did not match the SSN (code 5). We verified all employees with this type of problem who were current employees as of July 2004. Of the 136 employees, we identified 81 who had different names in the city files than what the SSA showed in their files. Of these 81 employees, 66 were due to maiden names and 15 had other problems with their name such as having their first name listed as their last name, or a different first or last name on file with the city. We could not identify the cause of the mismatch with the remaining 55 employees.
- Five employees with records in which the gender did not match (code 2)
- One employee with a record in which the SSN had not been issued (code 1)
- One employee with a record in which the SSA had a different SSN on file (code *)

These employees and the discrepancies identified by my office are shown on schedule 2. Please let me know if you would like this file electronically.

Furthermore, one employee whom the SSA identified as having a SSN that did not match his name (code 5) quit rather than have us verify his SSN. The Department of Law ran his name through Westlaw and found that the SSN he was using was associated with four other names, but not his. The Berwyn Group investigated this SSN and confirmed that the SSN was being used by multiple individuals, including the former city employee. The Berwyn Group also identified another SSN (code 5) that was used by a former city employee as well as by multiple other people. We believe that these two former city employees provided fraudulent SSNs on their city application forms.

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[1] Of the 310 employees, 149 had SSN problems and 143 of those were verified. The six employees not verified included one employee we did not attempt to verify, one employee who quit as a result of the verification process, and four employees who were terminated shortly before my office did the verification work.

Lastly, we submitted to the Berwyn Group the 518 records of names that did not match the SSN (code 5). The Berwyn Group matched these records against its national master death file. From this list, the Berwyn Group identified 15 records that matched their death file. From the results provided by the Berwyn Group and our own review of personnel records we found:

- A former city employee who was using the SSN of his deceased mother. Although the employee provided a copy of his social security card as part of the employment eligibility verification document review process (I-9), he listed his mother's SSN on all other personnel records. The city did not identify the discrepancy and entered his mother's SSN in the human resource and payroll records.
- Nine city records had names listed incorrectly, including two records that listed the estate as the person's name.
- Three records in which the SSN was entered incorrectly.
- We could not verify the accuracy of the SSN for the remaining two records since we could not locate the personnel file, or the file did not contain a copy of the social security card.

Recommendations

We recommend the city contact all current employees who have verification codes "5" or "*", request that they complete IRS form W-9 (or a substitute as long as it is substantially similar to form W-9), and submit this information to the IRS as required in IRS publication 1586. The city can be subject to a $50 penalty for **each** incorrect SSN submitted to the IRS. IRS publication 1586 provides instructions on how the city should contact employees regarding incorrect social security numbers to avoid the penalties.

To prevent future SSN discrepancies from occurring, we recommend that the city use the SSA's Employee Verification Service (EVS) to verify that the name and SSN provided by new hires match the SSA's records. Additionally, the city should not allow employees to change their name in personnel or payroll records until they provide a copy of the new social security card with the updated information. EVS offers several verification methods based on the number of employees (see the attached booklet from the SSA). To use the EVS services, you will need the city's EVS identification number (DBYZ) and the city's employer identification number.

Finally, the city should conduct an internal quality review during the hiring process to ensure that the SSN submitted by future city employees on personnel documents, and which is eventually entered in PeopleSoft, matches the number listed on the individual's social security card.

Attachments: Schedule 1 – CONFIDENTIAL
                Schedule 2 – CONFIDENTIAL
                Employee Verification Services (EVS)

APPENDIX 3

AUDIT RESPONSE – DEPARTMENT OF FINANCE

CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

DEPARTMENT OF FINANCE
68 MITCHELL STREET, S. W., SUITE 11100
ATLANTA, GEORGIA 30335-0312
VOICE (404) 330-6430 FAX (404) 658-6667

JANICE D. DAVIS
CHIEF FINANCIAL OFFICER

To: Leslie Ward
           Internal Auditor

From: Janice D. Davis
           Chief Financial Officer

Date: February 7, 2006

Subject: Responses to Draft Audit Report – City Payroll Processes

Recommendation 3: Improve controls over overtime and compensatory time

To correctly provide overtime and compensatory time for hourly employees, the Commissioner of Human Resources and the City's Chief Financial Officer should:

1. Periodically review PeopleSoft reports pertaining to overtime and compensatory time before the new payroll system is implemented.
2. Train department timekeepers to observe city overtime and compensatory time payroll policies.
3. Consistently enforce City and FLSA guidelines on approval to work overtime, on compensatory accrual limits, and payments for unused compensatory time above 240 hours for non-sworn personnel and 480 hours for sworn personnel.

Management Response: The Department of Finance concurs with this recommendation.

Recommendation 4: Ensure advanced leave is repaid

The Chief Financial Officer should seek repayment from employees who leave city employment before repaying advanced leave.

Management Response: The Department of Finance concurs with this recommendation.

Recommendation 5: Explore use of a catastrophic leave pool and other options as alternatives to the current donated leave program

The commissioner of human resources and the chief financial officer should evaluate replacing donated leave with a catastrophic leave pool that would receive donations from employees and be used by employees who meet clearly established criteria. They should

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also consider other ways to assist employees with protracted illness or serious injury including options for short-term disability coverage.

Management Response: The Department of Finance concurs with this recommendation.

Recommendation 6: Comply with vacation accrual limits

The City's Chief Financial Officer should ensure vacation balances do not exceed the maximum limit.

Management Response: The Department of Finance agrees with this recommendation.

Recommendation 7: Comply with state law on unclaimed payroll checks and move toward eliminating production of payroll checks.

The City's Chief Operating Officer and Chief Financial Officer should evaluate options for increasing use of direct deposit by employees with bank accounts and providing alternatives such as payroll cards for employees without bank accounts, with the goal of eliminating production of payroll checks except for seasonal and temporary employees and employees' final paychecks. The City's Chief Financial Officer should also:
   a) Develop written policies and procedures for handling and processing unclaimed payroll checks.
   b) Submit an Unclaimed Property Report to the State of Georgia Department of Revenue along with the unclaimed payroll checks that are older than 1 year.
   c) Clear outstanding and expired payroll checks from the City's Management Analysis and Response System for Government (MARS/G).

Management Response: The Department of Finance agrees with this recommendation.

Recommendation 8: Reduce the Risk of Fictitious Employees

The Commissioner of Human Resources and the City's Chief Financial Officer should develop procedures to ensure that employees do not have multiple employee ID numbers in the new system.

Management Response: The Department of Finance agrees with this recommendation.

Recommendation 9: Segregate Major Job Functions

The PeopleSoft system and the departmental payroll processes should be corrected to give employees appropriate access to personnel records. The City's Chief Financial Officer should:

   a) Restrict employees access to a single function in the PeopleSoft system.
   b) Provide guidance to departments to ensure manual payroll duties are divided among staff members. The tasks of preparing and approving TADs should not be done by the same person. Likewise, the tasks of preparing, approving and distributing payroll should not be done by the same person.

Management Response: The Department of Finance agrees with this recommendation. To the extent possible, we will work with the departments to segregate duties.

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CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

68 MITCHELL STREET, S.W., • ATLANTA, GEORGIA 30303-0306
TEL.: (404) 330-6360 • FAX: (404) 658-6892

DEPARTMENT OF HUMAN RESOURCES
BENITA C. RANSOM
COMMISSIONER

To: Leslie Ward, City Auditor

From: Benita C. Ransom

Date: February 1, 2006

Re: **Audit Report – City Payroll Processes**

The Department of Human Resources (DHR) supports the recommendations of the payroll audit as indicated in the attached document.

Currently, the City is implementing an enterprise software solution, Oracle eBusiness Suite, which will greatly reduce, if not eliminate, the issues identified in the audit. This software solution will provide a single platform for human resources and payroll data. It will also offer visibility of personnel documents and payroll information to authorized users citywide. Moreover, departments will be able to automate and integrate many business processes which will minimize the possibility of human error. Finally, as part of this implementation, DHR is undertaking a major data scrub initiative which will address inaccuracies and inconsistencies in data.

Attachment

c: Lynnette Young, COO

Attachment

DHR RESPONSE TO PAYROLL AUDIT RECOMMENDATIONS

Recommendations*	Agree/ Disagree	Proposed Actions	Time Frame
1. Re-examine employee classifications as hourly or salaried.	Agree	In May 2005, DHR completed an extensive study of all job classifications and corresponding FLSA designations. The results were presented to Cabinet. DHR also drafted a policy, "FLSA Status Determination," that formalizes guidelines for determining the FLSA status of newly created classes and positions and, reclassified positions. Positions created in the 2006 budget have been reviewed by DHR generalists to verify FLSA designations. DHR is working with the Department of Finance to ensure appropriate training for department payroll processors and HR Policy Council members.	Completed
2. Limit exempt employees eligible for compensatory time and administer consistently.	Agree	DHR will investigate alternatives to executive accrual of compensatory time.	1st quarter 2006
3. Improve controls on overtime and compensatory time.	Agree	DHR will work with Finance and the Department of Information Technology (DIT) to develop a monthly exception report detailing overtime and compensatory time accruals. Copies will be provided to DHR as well as respective departments for review. DHR will also conduct semi-annual training on overtime and compensatory guidelines for HR Policy Council members and department payroll personnel.	1st quarter 2006
5. Explore use of catastrophic leave pool and other options.	Agree	DHR will investigate alternatives to the donated leave program.	2nd quarter 2006
8. Reduce the risk of fictitious employees.	Agree	Although the audit report did not find any occurrences of fictitious employees, DHR agrees additional safeguards should be implemented. To this end, DHR has instructed all departments to verify names and social security numbers of new hires through the Social Security's Employee Verification Service (EVS). DHR will also send an electronic list of new hires to EVS twice a year to ensure that social security numbers match the names of employees. To determine if an employee has previously worked for the City, department payroll processors have been instructed to cross reference new hires using social security numbers and mainframe information. Practically all employees with two PeopleSoft ID numbers identified in the audit were rehires. DHR recommends that DIT initiate controls in PeopleSoft that automatically issue the original ID number to rehires, rather than allow the generation of a second ID number. DHR will request that DIT generate a monthly exception report to identify any employees with duplicate ID numbers and ensure they are not being paid under both numbers.	Completed in part, balance to be completed 2nd quarter 2006

*The recommendation numbers correlate to the numbers in the final audit report.

DHR   December 30, 2005 rev. February 1, 2006