



CITY OF ATLANTA

City Auditor's Office
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March 2006

Performance Audit:

City Payroll Processes

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.