Performance Audit:
Payroll Processing

June 2018

City Auditor's Office

City of Atlanta

File #17.05

Why We Did This Audit

Our 2015 timekeeping audit found potential problems with payroll, including manual corrections to payroll records. We last audited payroll in 2006. We conducted this audit to assess whether the planned Oracle upgrade will strengthen control weaknesses and to test transactions for accuracy and proper authorization.

What We Recommended

To improve payroll processing efficiency and controls, the chief financial officer should work with AIM and Deloitte to:

- automate manual payroll processes
- evaluate whether the Kronos to Oracle interface can prevent negative entries from creating positive Oracle entries
- configure Oracle's manager self-service portal to allow departments to complete standard off-cycle request forms and upload documentation

To ensure that payroll staff receives accurate and timely information, we recommend that the chief financial officer:

- draft legislation to limit retroactive payments to a maximum of 12 months and discontinue manual retroactive payments
- develop, formalize, and enforce policies and procedures for managing payroll

To improve payroll processing efficiency and controls, the commissioner of human resources and AIM should:

- ensure shift differentials are configured and automated within Kronos

To ensure that hours worked are recorded accurately, we recommend that the commissioner of human resources:

- provide training on moving time correctly in the timekeeping system
- enforce timekeeping policies that require employees to clock in/out
- calculate benefit overages paid by city employees and return premium overages

For more information regarding this report, please use the "contact" link on our website at www.atlaudit.org.

Performance Audit:

Payroll Processing

What We Found

Payroll staff relies on information from city departments to process payroll accurately. Because payroll's priority is ensuring that employees are paid on time, payroll staff allows departments to exceed timecard approval deadlines and cut corners on documentation. This decreases the amount of time available for payroll staff to process payroll, increases error risk, and creates an environment in which payroll staff makes concessions in quality to meet processing deadlines. We found 35% of off-cycle check requests and 33% of change sheets lacked sufficient justification. Unsupported requests could indicate error or impropriety.

The payroll process is also vulnerable to error because many processes are manual. Despite the risk, we identified relatively few errors. We identified two instances in which payroll processed retroactive pay without sufficient approval, resulting in overpayments. We found one error in shift differential calculations resulting in overpayment.

While retirement contributions to deferred compensation accounts and parking fees were deducted accurately, the city deducted incorrect amounts for 56% of insurance premiums from employees' September 2017 pay checks. Although the Department of Human Resources is aware of the overage and requested reimbursement from the third-party administrator, it did not ensure employees received refunds for overpaid premiums.

The planned Oracle upgrade will automate some manual payroll processes, which should strengthen controls, reduce risks, and shorten payroll processing times, while providing departments with more time for departments to submit timesheets. The upgrade also contains additional self-service options for employees, such as adjusting charitable contributions, uniforms, withholdings, and MARTA deductions. Finance and AIM will need to work with Deloitte to ensure that the Oracle upgrades are implemented as planned.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	We recommend the chief financial officer work with AIM and Deloitte to ensure that the planned Oracle upgrades are implemented to automate manual steps of the payroll process, as specified in Appendix C.	
Response & Proposed Action:	Payroll Manager and Director of Shared Service will continue working with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #2:	We recommend the chief financial officer work with AIM and Deloitte to evaluate whether the Kronos to Oracle interface can be revised to prevent negative Kronos entries from creating positive Oracle entries.	
Response & Proposed Action:	Payroll Manager and Director of Shared Service will continue working with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #3:	We recommend the chief financial officer work with AIM and Deloitte to configure Oracle's manager self-service portal to allow departments to complete standard off-cycle request forms and upload supporting documentation.	
Response & Proposed Action:	Payroll Manager will continue working with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #4:	We recommend the chief financial officer work with AIM and Deloitte to generate a list of performance measures that address risks that exist in the payroll process and work with Deloitte to ensure that data is captured in Oracle to track performance against the metrics.	
Response & Proposed Action:	Director of Shared Service and Controller will continue working with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #5:	We recommend the chief financial officer work with AIM and Deloitte to develop ad-hoc reports and training materials for payroll staff.	
Response & Proposed Action:	Payroll Manager will continue to work with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #6:	We recommend the chief financial officer work with AIM and Deloitte to test and confirm whether the city's interface run times within Oracle Cloud meet estimated expectations.	
Response & Proposed Action:	Payroll Manager will continue working with AIM and Deloitte.	**Agree**
Timeframe:	November 2018	
Recommendation #7:	We recommend the chief financial officer draft legislation for city council consideration to limit the time in which a payment can be retroactively approved to a maximum of 12 months, excluding payments related to litigation.	
Response & Proposed Action:	Director of Shared Service will continue working with CFO to get Legislation approval.	**Agree**
Timeframe:	November 2018	

Recommendation #8:	We recommend the chief financial officer draft legislation for city council consideration to discontinue processing manual retroactive payments.	
Response & Proposed Action:	Director of Shared Service will continue working with CFO to get Legislation approval.	**Agree**
Timeframe:	November 2018	
Recommendation #9:	We recommend the chief financial officer discontinue issuing off-cycle checks to employees without required documentation.	
Response & Proposed Action:	Director of Shared Service will continue working with Timekeeper and Managers in remote locations.	**Agree**
Timeframe:	November 2018	
Recommendation #10:	We recommend the chief financial officer develop, formalize, and enforce policies and procedures for managing payroll, including firm deadlines for departments to submit timecards and standardized forms with required authorizations.	
Response & Proposed Action:	Director of Shared Service will continue working with COA HR.	**Agree**
Timeframe:	November 2018	
Recommendation #11:	We recommend the commissioner of human resources and AIM ensure shift differentials are accurately configured and automated for applicable departments within the upgraded Kronos system.	
Response & Proposed Action:	The department of human resources will work with AIM to determine the correct way to configure and automate shift differential in KRONOS.	**Agree**
Timeframe:	October 2018	
Recommendation #12:	We recommend the commissioner of human resources provide timekeepers and managers additional training on moving time correctly in the timekeeping system.	
Response & Proposed Action:	The department of human resources will work with the KRONOS team and AIM to develop and implement training for timekeepers and managers that will ensure accuracy in the timekeeping process.	**Agree**
Timeframe:	October 2018	
Recommendation #13:	We recommend the commissioner of human resources calculate benefit overages paid by city employees during the 2016 and 2017 enrollment years and work with the Department of Finance to return premium overcharges to the affected employees.	
Response & Proposed Action:	The department of human resources will work with the department of finance and all other stakeholders to ensure employees are credited for any premium overages. In addition, the department will develop a process to ensure overages are not deducted.	**Agree**
Timeframe:	July 2018	
Recommendation #14:	We recommend the commissioner of human resources enforce city timekeeping policies that require employees to clock in and out each day of the pay period.	
Response & Proposed Action:	The department of human resources will work with AIM to ensure that automated timekeeping methods are accessible to employees. In addition, employees will be provided the timekeeping policy and held accountable to following said procedures.	**Agree**
Timeframe:	September 2018	

AMANDA NOBLE
City Auditor
anoble@atlantaga.gov

STEPHANIE JACKSON
Deputy City Auditor
sjackson@atlantaga.gov

CITY OF ATLANTA

CITY AUDITOR'S OFFICE

AUDIT COMMITTEE
Marion Cameron, CPA, Chair
Daniel Ebersole

June 18, 2018

Honorable Mayor and Members of the City Council:

Our 2015 timekeeping audit of timekeeping found potential problems with payroll, including manual corrections to payroll records. We last audited payroll in 2006. We conducted this audit to assess whether the scheduled Oracle upgrade will strengthen identified control weaknesses, and to test transaction accuracy and proper authorization.

We recognize that there are operational barriers which prevent some departments from meeting deadlines as the process is currently designed. If the operational efficiencies described in this audit are implemented, it should allow for payroll to function with a shorter timeline due to the streamlining of the process. The time savings from the streamlined process could allow more time for departments to verify and submit timeekeeping records prior to sending them to payroll for processing.

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 Randi Qualls, Ivy Williams, Micheal Jones and Diana Lynn.

Amanda Noble
City Auditor

Marion Cameron
Chair, Audit Committee

Payroll Processing

Table of Contents

List of Exhibits

Introduction

We undertook this audit because our audits of timekeeping (May 2015) and segregation of duties in the city's Oracle Financial Management System (June 2016) found potential problems with payroll, including manual corrections to payroll records and employees with system access to both change employee data and process payroll. We last audited payroll in 2006. The purpose of this performance audit was to assess whether the scheduled Oracle upgrade would strengthen previously identified control weaknesses and to test transactions to ensure accuracy and proper authorization.

Background

The City of Atlanta processes 26 standard payroll periods each year. The 2017 payroll schedule is shown in Appendix B. The Departments of Finance and Human Resources maintain primary responsibility for administering payroll, but all city departments also play a key role, and are responsible for providing accurate employee-level information in a timely manner.

Finance Relies on Data from City Departments to Process Payroll

The Department of Human Resources is responsible for creating and maintaining employee records and authorizing all employee transactions such as new hires, transfers, promotions, demotions, terminations, and changes in pay. It is also responsible for developing policies and procedures related to timekeeping, ensuring compliance with employment-related laws and regulations, and inputting employee benefit rates into the financial system of record, Oracle (see Exhibit 1).

Exhibit 1 Processing Payroll is a Shared Responsibility

Human Resources (sets policies, enforces laws, and inputs employee information into Oracle) → **City Departments** (captures, approves, and submits time and leave) → **Payroll** (processes taxes, deductions, leave, and pay)

Source: Created by audit staff from interviews with human resources, and payroll staff

Human Resources' information systems unit serves as the liaison between employees and payroll staff, providing documentation such as W-4's for new hires and direct deposit setup. They also send retroactive payment forms for human resources and communicate terminations to payroll.

Payroll, part of the Office of the Controller in the Department of Finance, is responsible for administering payroll. Payroll also handles employee leave accruals, deductions and payments for employee benefit plans, and manages the payment and reporting of state and federal tax withholding. AIM (Atlanta Information Management) produces deposit advices and checks to distribute to employees.

City department timekeepers and supervisors are responsible for ensuring that employee time and leave is accurate and approving timecards for payroll processing. This includes resolving any issues, such as missed time punches, determining overtime earning and pay, and verifying the type of leave to be charged before approval.

City Uses Two Systems to Process Payroll

The city uses two systems to process employee pay – Kronos and Oracle. Kronos is the system of record for timekeeping. Employee timecards are stored in Kronos for collecting time, which is carried out by city departments. Oracle is the city's financial system and system of record for payroll. Human resource employees enter demographic information into Oracle, including name, status, position, pay location and compensation. A system interface between Oracle and Kronos transfers the demographic information back to Kronos daily, which updates the information (see Exhibit 2). To process payroll on a bi-weekly basis, payroll employees use an interface to transfer timecard data from Kronos to a payroll file, and then upload the file to Oracle.

Exhibit 2 Employee Time is Moved from Kronos to Oracle
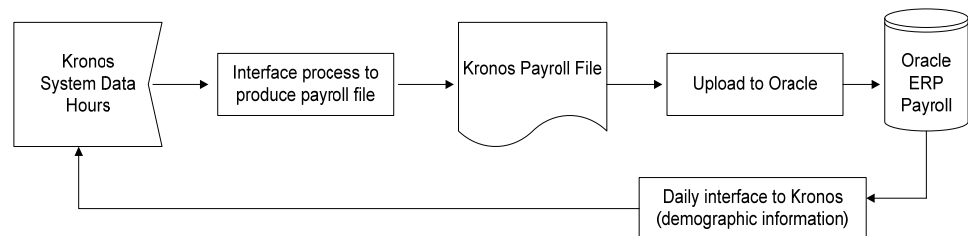
Source: *Review of the Oracle ERP First Payroll Run*, City Auditor's Office, April 2008

Payroll Employees Must Adhere to Processing Deadlines

The city's pay period begins on Thursday, and closes on Wednesday, two weeks later. City departments must approve all timecards in Kronos no later than noon the Friday after the pay period closes (see Exhibit 3). Payroll employees approve time in Kronos by noon on Monday and lock out the system; after system lockout, departments can no longer make timecard changes in Kronos. If changes or adjustments need to be made departments must submit a change sheet or off-cycle request to payroll staff.

Payroll is responsible for verifying that all departments have approved timecards in Kronos and initiating the interface that transfers employee hours and accruals to Oracle. After time is moved from Kronos to Oracle, payroll makes any corrections or adjustments to the information directly in Oracle based on change forms submitted by city departments. The changes that payroll makes to hours in Oracle are not updated in Kronos; only demographic information is moved from Oracle to Kronos. We previously recommended the city assess the feasibility of adding to the Oracle-Kronos interface the capability to insert changes to employees' time made directly in Oracle into Kronos in the pay period in which the correction applies.

Exhibit 3 Most Payroll Processes are Manual

			Thursday Day 1	Friday Day 2	Saturday Day 3	Sunday Day 4
			Pay Cycle Begins	Kronos Sign-off by Payroll	Retro Notification Report	
			Kronos Sign-off by Department	**Kronos to Oracle Interface**	Retro Pay Enhanced Report	
			Voluntary Deduction Sheets		**Errors**	

Monday Day 5	Tuesday Day 6	Wednesday Day 7	Thursday Day 8	Friday Day 9	Saturday Day 10	Sunday Day 11
Credit Union Interface	Payroll Calculation	KBACE Reports	**Checks Printed and Funded**	*Pay day*	**2nd Pay Closure**	
Change Sheets Entry		**Oracle Apps**	**Positive Pay File**	**Checks Distributed**		
Negative Report		**1st Pay Closure**		Tax Payments Remitted		
Retro Files	Payroll Validation			Bank Rejects		
Shift Differentials				**Off-cycle Checks**		
Deduction Files				Positive Pay Confirmations		
Garnishments						

Monday Day 12	Tuesday Day 13	Wednesday Day 14	
KBACE Applications	**Off-cycle Checks**	*Pay Cycle Ends*	**Indicates Manual or Manually initiated Process**
EXXOR: GMS & DPS Report	**3rd Pay Closure**		

Source: COA Payroll Checklist

Exhibit 3 summarizes steps in the payroll process, with manual or manually initiated processed indicated by red font.

On Day 1, departments approve timecards in Kronos and send employees' voluntary deduction sheets. These are deductions initiated by the employee (i.e. parking or charitable contributions).

On Day 2, payroll confirms that timecards are signed off by departments and initiates the Kronos to Oracle interface to upload employee hours from Kronos to Oracle for payroll calculation.

On Days 3 and 4, after the interface is complete, payroll begins the retro enhanced processes. The notification pulls all retroactive payments due for the pay period and the report lists employees who will receive a retroactive payment. Retroactive payments correct employees' compensation and deductions for previous pay periods due from personnel actions, such as a promotion or salary increase, when the action is entered in Oracle after the pay period in which it became effective. Any errors — such as employee data that did not upload into Oracle correctly — will be retried during payroll validation.

On Day 5, the payroll team performs seven steps intended to ensure earnings and deductions are calculated correctly:
- Runs the credit union interface to compile a list of employees with amounts due to the credit union
- Manually enters in Oracle departments' requests for changes or corrections to an employee's timesheet data for the current or previous pay period
- Reviews the negative report to identify time movement errors in Kronos that could result in overpayments
- Confirms that retroactive payments listed on the retro file have been approved by human resources
- Compiles and uploads shift differential hours submitted by departments for eligible employees
- Completes entering voluntary deductions that were not entered on Day 1 by uploading a deduction file from a third-party vendor providing supplemental insurance or manually keying employee-initiated deductions into Oracle
- Enters garnishments (involuntary deductions such as child support) into a garnishment management system that is interfaced with Oracle

Currently, payroll uses a third-party system, KBACE, to pull data from Oracle into customizable reports. The information from these reports is used to provide monthly metrics to the chief financial officer and the city controller, which include:

- total of employees paid during the regular payroll cycle
- total off-cycle checks per pay period
- total paper checks distributed by pay period and department
- overtime analysis
- compensatory time analysis

On Days 6 and 7, payroll reviews the payroll calculation, KBACE Reporting, and Oracle applications to validate hours, deductions and garnishments, and to retry processing any employee who did not process correctly during the interface. The calculation multiplies employee hours times the employee's applicable pay rate. The KBACE reports are used to validate payroll calculations are accurate. Oracle applications are used to validate payroll and retry any employee whose hours did not process correctly.

On Day 8, checks are printed and money for payroll is sent to the payroll account along with a positive pay file to the bank. This file provides the bank a list of authorized checks and amounts to prevent check fraud.

On Day 9, payroll notifies departments when checks are available for pickup. Payroll team also calculates, reports and remits federal, Medicare and state taxes due for the pay period. If any direct deposits were rejected by the employee's bank, this notification initiates the process to create an off-cycle check for the employee. Payroll receives confirmation from the bank when the positive pay file is received.

On Day 12, Payroll use KBACE Applications to generate summary reports of all activity for the pay period. Payroll also uses the EXXOR System to process garnishments and deductions.

On Day 13, if any additional bank rejects are received from Days 10 or 11, an off-cycle check will be produced. An off-cycle check can be produced when either a bank reject occurs, or a department requests a check for an employee whose hours for the pay period were not entered in Kronos before the signoff deadline and were not submitted on a change sheet.

On Day 14, the pay cycle ends.

Both Kronos and Oracle Are Being Upgraded

The Kronos system was upgraded to version 8 June 2016 and departments began going live in February 2017. The city has implemented enhanced features in which the direct supervisors, rather than timekeepers, are set up in Kronos to manage time for their assigned staff, including entering work schedules, making corrections, and approving time each pay period. Many city departments have moved to the new process for timekeeping. As of March 2018, the Departments of Watershed Management and Public Works, as well as public safety departments (Fire, Police and Corrections) were not using the enhanced features due to the complexities of their schedules. Some departments operate 24-hours and have multiple shifts that begin at various times of the day. Also, some of those shifts include the opportunity to earn a shift differential, a premium paid for each hour worked outside of normal business hours. The Kronos upgrade includes the ability to automate the tallying of hours associated with a 24-hour schedule and allocate shift differentials, and AIM staff is working with the remaining departments to transition to the new system.

The city is also in the process of upgrading Oracle to a cloud-based version with an anticipated go-live date of October 2018. All city departments must be migrated to the latest version of Kronos for the Oracle upgrade to proceed as planned. The city's goals with the upgrade are to reduce manual transactions and create more automated workflows, centralize reporting, and improve processing times.

Due to the complexity of the implementation and AIM's mandate to prevent customization of the software, the city also hired the business consultant, Deloitte. Their responsibilities include implementing the Oracle upgrade, evaluating current business processes, providing industry leading practices, and eliminating current issues within the system where possible. Deloitte began working under contract for the city in December 2017 and is working with payroll staff to understand their needs and evaluate whether the upgrade's standard functionality can meet those needs.

FLSA, City Code, and Human Resource Policies Govern Time and Pay

The FLSA (Fair Labor Standards Act) of 1938, as amended, provides guidance for the city to compensate employees. The FLSA includes information for employers to administer allowable labor practices, protection for employees, as well as penalties against employers who engage in unfair labor practices. This act establishes a minimum wage, sets overtime compensation at time and one-half of the employee's regular rate and defines which employees are entitled to overtime

compensation. It also specifies that the employer is responsible for documenting wages and hours for review. The state of Georgia includes provisions of the Fair Labor Standards Act in its state law.

Employees governed by FLSA are either "exempt" or "non-exempt". Non-exempt employees are entitled to overtime pay and exempt employees are not. Some jobs are classified exempt by definition, how much they are paid, how they are paid, and what kind of work they perform.

The FLSA requires public employers to:

- pay non-exempt employees at least one and one-half times the employees' regular rates of pay for all hours worked over 40 in the workweek
- under certain conditions, provide non-exempt employees with compensatory time off at one and one-half hours for each hour worked, instead of paid overtime
- comply with recordkeeping requirements

The FLSA contains specific guidelines regarding overtime and work schedules for employees engaged in fire protection and law enforcement activities. These employees can have a work period ranging from 7 to 28 days, in which they are paid overtime after 212 (fire protection) or 171 (law enforcement) hours.

City code establishes payroll related roles and responsibilities. According to city code, the chief financial officer is authorized to make deductions from employee wages and salaries in accordance with the income tax laws. The commissioner of human resources must approve all payroll changes in the civil service. City code also states that overpayments to employees must be recomputed to the correct amount and the chief financial officer will decide how much time the employee will be given to repay the overage. Underpaid employees shall be compensated for the correct amount on the next regular paycheck. City code also requires the city to pay employees on the regularly scheduled pay day. The code does not specify any other procedural provisions related to payroll.

The Department of Human Resources has established policies that govern attendance and timekeeping, overtime and compensatory time. The policies are intended to guide in applying related city codes, administrative orders and other laws and regulations in the day-to-day workplace:

Attendance and Timekeeping

- standard workweek is 40 hours, except for most sworn members of the fire department, who work a 53-hour week
- work schedules are determined by the department head in conjunction with the commissioner of Human Resources and approved by the Mayor
- all pay sheet changes must be entered in the system prior to the pay-period close date

Overtime

- leave used during the 40-hour workweek will not be counted towards the hours worked and cannot be included in the calculation of overtime
- sworn, non-exempt corrections and police employees are compensated at the overtime rate for hours worked over 171 hours within a 28-day work period
- sworn, non-exempt fire employees are compensated at the overtime rate for hours worked more than 212 hours in a 28-day work period
- sworn, non-exempt employees who have worked more than 160 but no more than 171 hours are compensated at the regular rate with either compensatory time or regular pay
- exempt employees are not eligible for overtime pay

Compensatory Time

- before a non-exempt employee works more than 40 hours in a week, the supervisor should inform the employee that compensatory time will be given instead of cash payment
- non-exempt employees cannot accrue more than 160 hours of compensatory time, which when converted at a rate of time-and-a-half, equals 240 hours

Audit Objectives

This report addresses the following objectives:

- Are the city's policies and procedures for payroll consistent with federal and local regulations and best practices?

- Does the city's payroll process calculate earnings and deductions accurately?

- Will the upgrade of the Oracle system strengthen the payroll process?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. We primarily focused on payroll information for city employees from January through September 2017.

Our audit methods included:

- interviewing subject matter experts from finance, human resources, and information technology about payroll and timekeeping procedures

- reviewing city code and human resources policies to understand payroll requirements

- reviewing federal labor laws to understand the provisions of the Fair Labor Standards Act

- researching best practices for payroll and related controls

- analyzing documentation for off-cycle checks issued from January through September 2017

- analyzing change sheets for all city departments collected by payroll for all pay periods during September 2017, the most recent month of our detailed dataset

- interviewing timekeepers from various departments throughout the city to understand how timekeeping processes affect payroll

- analyzing earnings and deductions for all employees during September 2017, the most recent month of our detailed dataset

- interviewing the consultant responsible for the Oracle upgrade to discuss the new system's capabilities and limitations and what affect they may have on the payroll process

We omitted a limited review of overtime from our report and will cover it in our current audit of citywide overtime, which we expect to release in the fall.

Generally accepted government 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.

Findings and Analysis

Payroll Errors are Few, but Timekeeping Errors and Weak Enforcement Create Risk

Payroll staff relies on information from city departments to process payroll accurately. Because payroll's priority is ensuring that employees are paid on time, payroll staff allows departments to exceed timecard approval deadlines and cut corners on documentation. This decreases the amount of time available for payroll staff to process payroll, increases error risk, and creates an environment in which payroll staff makes concessions in quality to meet processing deadlines. Of 657 off-cycle checks processed by payroll from January through September 2017, 35% of the forms did not have a justification and 41% lacked the required department head's signature. Unsupported off-cycle check requests could indicate error or impropriety. Payroll also processed change sheets without sufficient justification — 33% included no specific justification and 48% lacked department head signatures. Change sheets override or reconcile the timekeeping system's records and should include the reason for deviation from standard timekeeping practices.

Some department timekeepers estimate time worked toward the end of the pay period instead of allowing employees to clock in or out; this practice clouds compliance with FLSA, decreases accuracy, and places a burden on payroll staff to correct timecard errors. Departments also move time incorrectly in Kronos, which creates exceptions that payroll staff must reconcile in Oracle before processing pay.

Payroll is also vulnerable to error because many processes are manual. Despite the heightened risk, we identified relatively few errors. We identified two instances in which payroll processed retroactive pay without sufficient approval, resulting in overpayments. We found one error in shift differential calculations resulting in overpayment. Payroll has a small staff of seven people who are directly responsible for processing checks for over 9,000 employees citywide.

Watershed management, public works, and the public safety departments (Fire, Police and Corrections) have not yet begun using the enhanced Kronos system, which is still being configured to accommodate those departments' schedules and can calculate overtime and shift differentials correctly, which should reduce errors resulting from current manual processing.

Our recommendations focus on ensuring that planned Oracle upgrades are implemented, which will automate manual processes and reduce errors and processing time. They also include creating payroll policies and procedures and firm deadlines to ensure that departments correct and approve timecards by the established deadlines and standardizing forms with required authorizations.

Departments Do Not Always Follow Timekeeping Procedures, which Reduces Payroll Accuracy and Burdens Payroll Staff

Payroll accuracy primarily depends on the accuracy of the information provided by city departments. Payroll processes are also vulnerable to errors because many of the payroll processes are manual. In the few instances in which we identified payroll errors, it was because departments or payroll input time incorrectly.

Watershed management, police, and fire department timekeepers estimate time worked toward the end of the pay period, clouding compliance with FLSA and decreasing accuracy. Estimating time in Kronos creates additional work for payroll staff, because departments are more likely to submit change sheets to payroll to correct time and leave records. Departments also move time incorrectly in Kronos, which creates exceptions that payroll staff must reconcile in Oracle before processing pay. AIM and Deloitte are working to ensure that Kronos is configured to accommodate those departments' varied schedules and can calculate overtime and shift differentials correctly, which should reduce errors resulting from current manual processing.

Compensation was accurate when hours were correctly entered and pay rates were up-to-date in Oracle. We recalculated earnings from pay periods 18 and 19 in 2017 for the top five earners in the six most frequently used pay categories:

- ✓ regular pay
- ✓ OT pay
- ✓ sick accrual pay
- ✓ vacation accrual pay
- ✓ shift1 differential
- ✓ shift2 differential

When the number of hours was input correctly and the employee's pay rate was up-to date in Oracle, the system contained adequate controls to calculate earnings accurately.

Payroll validates earnings by sending an 80-hour report to departments to verify hours and by generating and reviewing KBACE reports that

summarize employee earnings calculations for the pay period. KBACE modules compile information for the balance classification report and payroll register each pay period. This system is used to balance and reconcile transactions recorded in Oracle. The Department of Human Resources HRIS team enters employee pay rate information. When departments verify correct hours transferred from Kronos to Oracle and Human Resources enters the employee's correct pay rate promptly, payroll can calculate earnings.

Capturing shift differential hours is a manual process that is vulnerable to errors. We reviewed documentation reported to payroll for the top ten shift differential earners in each of the two pay periods in September 2017. In one instance, the employee was paid incorrectly. A police department employee received shift differential pay for 3,362 hours in one pay period due to a data entry error. The department confirmed the paid hours were incorrect and that the employee should have only been paid for 33.62 hours. The city is in the process of contacting the employee to have the money returned.

Currently, payroll specialists receive emailed spreadsheets from user departments on shift differentials owed, compile this information into a summary worksheet, and upload it into Oracle for processing. Payroll did not catch the error because the employee's paycheck was less than the review threshold of more than $5,000 in one pay period.

Human resources' shift differential policy states that employees who are regularly scheduled to work shifts outside of normal business hours and assigned an authorized position may receive additional compensation called a shift differential. For example, employees in the police department work under four different shifts; each shift starts at varying times (see Exhibit 4). Eligible employees who work hours outside of 8:15 a.m. through 5:00 p.m. can earn a higher hourly rate for those hours.

Exhibit 4 Eligible Employees Working Late and Early Morning Hours Receive Higher Pay

Police Department Shifts		
Shift	**Early Hours**	**Late Hours**
Day	6:30 AM to 2:30 PM	7:00 AM to 3:00 PM
Morning	10:30 AM to 6:30 PM	11:00AM to 7:00 PM
Evening	2:30 PM to 10:30 PM	3:00 PM to 11:00 PM
Night	10:30 PM to 6:30 AM	11:00 PM to 7:00 AM

Source: Interviews with APD Timekeepers, Auditor's Office

The Kronos upgrade includes the ability to automate the tallying of hours associated with a 24-hour schedule and allocate shift differentials. Automating this process should assist departments in allocating shift differential hours appropriately and eliminate the need for payroll to manually upload shift differentials into Oracle. AIM is working with the remaining departments to transition to the new system. We recommend that human resources staff work with AIM to ensure shift differentials are accurately set up and automated within Kronos.

Some departments estimate time instead of allowing employees to clock in or out toward the end of the pay period; this clouds compliance with FLSA, decreases accuracy, and places a burden on payroll staff to correct timecard errors. In our interviews with police and watershed management timekeepers, they stated that they project time on a regular basis to meet payroll's deadline for timecard approvals (see Exhibit 5). They estimate the number of hours that an employee was expected to work for the remainder of the pay period, and project time for up to two days within a pay cycle. The fire department timekeeper told us that employees do not clock in or out at all, but instead use "exception reporting" to document leave time for non-exempt employees. Using timekeepers, rather than direct supervisors, to track and approve time may be contributing to departments' difficulty in meeting payroll deadlines.

Exhibit 5 Police Department Employees Not Allowed to Clock In or Out
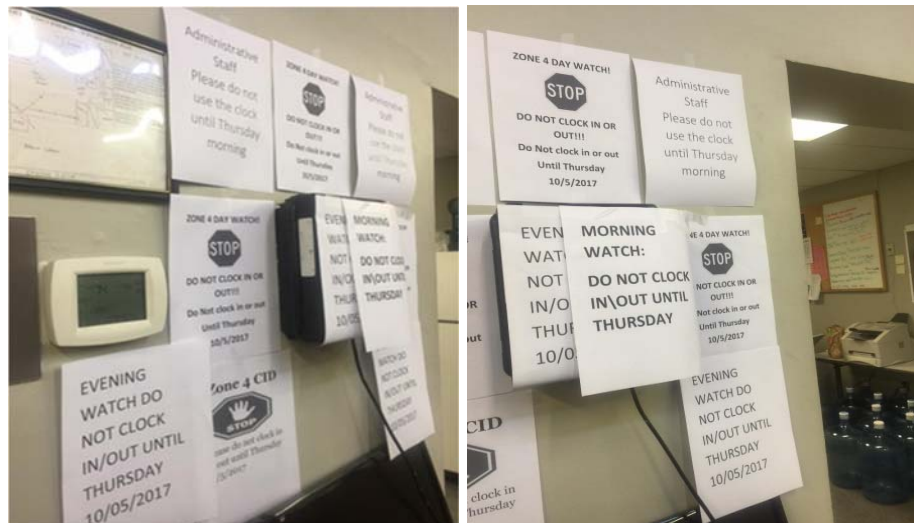
Source: Auditor photos at Atlanta Police Department

City pay periods close every two weeks on Wednesday. City departments must approve all timecards in Kronos no later than noon the Friday after the pay period closes. According to the FLSA, employee timecards should accurately reflect hours worked. When timekeepers

project time in the timekeeping system to meet deadlines, the timecards may not accurately reflect the hours worked and leave taken by the employee. The department must submit a change sheet to payroll to correct time and leave records. Payroll employees process timecard changes directly into Oracle, which creates additional work for payroll and leaves gaps in the timecard records in Kronos.

For the pay periods ending between August 23rd and September 20th, 2017, city departments submitted 815 changes to payroll; 65% of those were submitted by 5 departments (see Exhibit 6). Those departments included fire, police and watershed management. They were also among the top five departments submitting change sheets during our 2014 analysis of timekeeping.

Exhibit 6 Five Departments Submitted 65% of Change Sheets

Top 5 Departments	September 2017 Pay Dates			
	9/1	9/15	9/29	Total
Fire and Rescue	75	25	79	179
Public Works	29	34	57	120
Watershed Management	30	56	3	89
Police	37	21	25	83
Aviation	31	8	20	59
Total				**530**

Source: Auditor's analysis of all change sheets submitted to payroll for September 2017 pay checks

To ensure compliance with FLSA recordkeeping requirements and increase timecard accuracy, we recommend the departments discontinue projecting time into the timekeeping system and allow employees to use time clocks each day of the pay period. We also recommend that the commisioner of human resources enforces timekeeping policies that require employees to clock in and out each day of the pay period. Once these departments transition to the enhanced version of Kronos, supervisors will be required to review and approve timecards for their assigned staff. This will eliminate the need for timekeepers to perfom this function and should decrease the timecard approval time, allowing departments to more easily meet payroll deadlines. It will also likely decrease changes after timecards are submitted, decreasing payroll's workload.

According to Deloitte, the city will change its process with the Oracle upgrade to require departments to input their own timecard corrections into Kronos. The interface will run a second time to update Oracle. Kronos will also be updated by October 2018 to maintain historical

edits. These updates will allow the timekeeping system to more accurately reflect Oracle records and reduce processing time for payroll staff. We recommend that payroll staff work with AIM and Deloitte to ensure that this feature is implemented in the upgrade.

Incorrect movement of time by departments creates negative entries in the timekeeping system, which increases processing time for payroll and increases error risk. Exception reports from eight pay periods during 2017 included 2,881 negative time entries in Kronos. The entries were created because departments moved time incorrectly in Kronos, which converts from a negative entry to a positive entry when payroll moves time from Kronos to Oracle. This causes the employee's hours to be overstated and if not corrected, the employee could be overpaid. We could not determine, based on available information, whether any employees received an overpayment associated with negative entries.

AIM generates an exception report each payroll cycle to show any discrepancies in time between Kronos and Oracle. Exceptions include negative entries; errors because the systems measure time on different scales; and time cut in half from one system to the other. Only negative entries require corrections in Oracle to ensure accurate payments. Payroll receives and reconciles the report on the Monday before pay day.

Negative entries are generated because any hours moved in Kronos from one type of time to another, such as overtime, holiday or compensatory time that are moved incorrectly generate a negative entry. The negative hours will convert from negative hours in Kronos to positive hours in Oracle, leading to overpayment. If departments do not move the hours correctly, payroll staff must delete the negative entries in Oracle to prevent overpayments. Payroll and AIM attribute the negative entries to timekeepers and managers moving time in bulk rather than on the day that it occurs in Kronos.

To reduce manual payroll processes and reduce the risk of inaccurate payments, we recommend timekeepers and managers receive additional training on moving time correctly in the timekeeping system. We also recommend AIM work with Deloitte to evaluate whether the negative entries can be prevented from uploading during the Kronos to Oracle interface.

To Ensure Employees are Paid, Payroll Increases Risks by Processing Pay without Required Documentation from Departments

Payroll employees' priority is ensuring that employees are paid on time; as a result, payroll staff allows departments to exceed timecard approval deadlines and accept incomplete documentation. This decreases the amount of time available for payroll staff to process payroll, increases error risk, and creates an environment in which payroll staff makes concessions in quality to meet deadlines.

Manually entered retroactive payments leave the city vulnerable to overpayments. We identified two retroactive payments that were not authorized by human resources prior to payment. Manual payments entered in Oracle do not have a switch for automatic deletion and must be deleted by payroll each pay period to prevent duplicate payments. Since these payments were not flagged and deleted, the employees received overpayments. Payroll confirmed the unauthorized payments were overpayments and said they would contact the affected employees to arrange for repayment.

We reviewed 262 retroactive payments during the three pay periods ending in September 2017 (see Exhibit 7) to determine whether payroll received authorizations from human resources before these payments were made. Although payroll requested documentation for the exceptions, they did not receive final approvals from human resources before the payroll deadline and processed the two payments without them.

Exhibit 7 Two Employees Received Unauthorized Retroactive Overpayments

Retroactive Payments	September 2017 Pay Dates			
	9/1	9/15	9/29	Total
Processed and Paid	128	57	77	**262**
Authorized: Required Additional Verification	10	7	7	**24**
Unauthorized Overpayment to Employee	2	0	0	**2**

Source: Auditor's analysis of retroactive payments from balance classification report, the retro-enhanced report generated from Oracle, and human resource approvals sent to payroll

City code Sec. 114-151 requires appropriate documentation and approval from the commissioner of human resources before payroll changes can take effect. The city uses retroactive payments to correctly compensate employees for changes to earnings from previous

pay periods for personnel actions, such as promotions, that are processed after the effective dates.

Payroll validates retroactive payments in Oracle using a two-step process. First, payroll receives a report of retroactive payments and compares it to a list of approved payments compiled by human resources. Second, if any payment requests are on the retroactive report but not on human resources' list, payroll emails human resources to confirm whether the request is authorized to be paid. If human resources does not send an approval, payroll stated the retroactive payment request should not be processed. If a retroactive payment processes through the regular payroll process, there should be no recurring payment. If payroll encounters an error with a retroactive payment during the data run, the payment must be manually entered to process and pay in the same pay period. Payroll enters a beginning date for the pay in Oracle, but the system does not currently allow for an end date to be added.

We recommend that the Department of Finance draft legislation for city council consideration to discontinue manual retroactive payments. All retroactive payments should be processed using standard turnaround documents that are approved by requesting department and human resources staff. Human resources and finance staff should work with AIM and Deloitte to ensure that the Oracle upgrade can process retroactive payments through automated workflows, with beginning as well as end dates for payments.

We also recommend that payroll draft legislation for city council consideration to limit the time in which a payment can be retroactively approved to a maximum of 12 months, excluding payments related to litigation.

Payroll processed off-cycle checks and change sheets without sufficient justification. The city paid over $790,000 in off-cycle pay checks from January through September 2017. Of 657 off-cycle checks paid during this time, 35% of the forms did not have a reason code and 41% lacked a required department head or designee's signature. Payroll paid the off-cycle check requests without verifying that all required approval and documentation was submitted by requesting departments. Unsupported off-cycle check requests could indicate error or fraud.

Payroll also processed change sheets without sufficient justification - 33% did not specify the reason for the change and 48% lacked department head signatures. Change sheets override or reconcile the timekeeping system's records and should require reason for deviation from standard timekeeping practices.

According to payroll, to receive an off-cycle check an employee must have received less than 75% of their bi-weekly pay and the requesting department must document the employee's name, reason for the off-cycle or change sheet, and include the department head or designee's approval for processing. Failure to enforce requirements reduces payroll's ability to hold requestors accountable. Off-cycle requests are inherently riskier than regular payroll because they do not follow the regular payroll process and bypass many of the controls to process a check within hours instead of weeks. Off-cycle checks are processed on payday and the Tuesday following the regular pay day.

City code states that departments have a responsibility to prepare payrolls and timesheets for their respective departments. Departments request off-cycles or change sheets when an employee's hours were not reported accurately and/or timely, but management overrides of controls in the process carry inherent risk. *Payroll Best Practices* by Steven Braggs state that off-cycle checks should be minimized as they cause more manual work for payroll and should require high-level approval to initiate.

We recommend the Department of Finance discontinue issuing off-cycle checks to employees without required documentation. We also recommend that AIM and payroll work with Deloitte to configure Oracle's manager self-service portal to include standard off-cycle requests forms for departments to use and to upload supporting documentation.

Payroll lacks formal policies and procedures, which makes it difficult to enforce payroll processing deadlines and authorizations. **Although payroll has developed desktop procedures that include screenshots of steps to perform some payroll activities, most were out-of-date or obsolete. According to payroll staff, the current emphasis has been evaluating present processes and addressing staff turnover, which placed creating policies and procedures as a secondary priority. Payroll employees said that while they do not have a formal policies and procedures manual, they rely on city code and human resources policies for guidance. They also said that they would benefit from more formal policies to provide greater controls in the payroll process. Payroll employees told us that their goal is to ensure that employees are paid appropriately and timely; however, this goal has caused payroll staff to process pay requests without sufficient support.**

Developing formal policies and procedures and incorporating critical ones into city code would help to provide needed controls in the payroll

process, e.g., payroll deadlines and authorizations for payroll changes. We observed payroll waiting to begin the Kronos to Oracle interface because all departments had not entered and approved their time by the deadline. According to finance, this occurs regularly.   With fewer than ten payroll employees responsible for processing paychecks for almost 9,000 employees within the city, departments must submit timecard approvals and authorized payroll changes within deadlines, so that all employees are paid timely and accurately.

Payroll Best Practices by Steven Braggs recommends the need for a policies and procedures manual because unorganized payroll departments are inefficient, vulnerable to errors, and do not meet deadlines. The lack of policies and procedures, especially in cases where employee turnover is a concern, can lead to inconsistency and reduced standardization of the process. Written policies and procedures mitigate loss of institutional knowledge due to employee turnover.

We recommend payroll develop, formalize, and enforce policies and procedures for managing payroll, including firm deadlines for departments to submit timecards and standardized forms with required authorizations. The procedures should also include new processes resulting from the Oracle upgrade. The chief financial officer should work with payroll staff to draft legislation for city council consideration that include those procedures that should be included in the city code.

Human Resources Should Review Insurance Deductions and Automate Calculation Process

We reviewed deductions for health insurance, deferred compensation, and parking for city employees who elected those options. While retirement contributions to deferred compensation accounts and parking fees were deducted accurately, the city deducted incorrect amounts for 56% of insurance premiums from employees' September 2017 pay checks. Overages ranged from a few cents to five dollars per election per pay period in September 2017. While the Department of Human Resources is aware of the overage and has requested reimbursement from the third-party administrator, it has not ensured employees receive refunds for overpaid premiums. We recommend that human resources calculate the benefit overages paid by city employees during the 2016 and 2017 enrollment years and work with the Department of Finance to return applicable premium overcharges to the affected employees.

Insurance Deductions Did Not Consistently Match the Benefits Guide Rates

Employee and city deductions for health insurance premiums should be corrected. The city deducted incorrect amounts for 56% of health insurance premiums from employees' September 2017 pay checks (see Exhibit 8). Most of the errors were a few cents per selection per pay period, but overall, if not corrected, deductions could result in overpayments to the insurance companies from employee deductions for over $18,000 and the city's contributions by over $1,300 per year. Human resource employees stated that the benefit rate sheet provided to employees during open enrollment is incorrect. Staff manually inputs the monthly retiree rates into Oracle for all employees, rather than only retirees. Oracle calculates the premiums by multiplying the monthly retiree rate for the selected benefit by 12 months and dividing the total by the 26 pay periods within a normal calendar year. This calculation did not consistently match the rate quoted on the benefit sheet. Using the retiree calculation, caused 77% of the errors. According to the department, Oracle rounds to the nearest hundredth and the benefit rates are rounded to the nearest tenth. The Oracle upgrade will allow entries by pay period, instead of the monthly rate, which should reduce many of the rounding errors.

Exhibit 8 City Incorrectly Charged 56% of Health Insurance Premiums

	Total Number of Insurance Premiums Reviewed	Error Rate From Benefit Rates	Error Rate From Retiree Rate	Difference
Medical Insurance				
BCBS POS	8340	50.9%	18.3%	32.6%
Kaiser HMO	5231	89.3%	65.4%	23.9%
Dental Insurance				
BCBS High	9593	0.6%	N/A	N/A
BCBS Low	3382	5.3%	N/A	N/A
DELTA DENTAL	1552	99.5%	12.1%	87.5%
Vision Insurance				
SPECTERA	11843	99.8%	1.1%	98.7%

Source: Auditor's analysis of balance classification report's insurance premiums for pay periods 18 and 19 of 2017 compared to the benefit rates sheets for active employees and retirees

We recommend human resources calculate the benefit overages paid by city employees during the 2016 and 2017 enrollment years and work with the Department of Finance to return applicable premium overcharges to the affected employees.

Deferred compensation contributors complied with IRS rules. We reviewed employee contributions to the deferred compensation 457(b) plans for the September 1, 2017, pay checks. All contributions followed IRS (Internal Revenue Service) rules. Employees may contribute up to $18,000 per year to the 457(b) accounts tax-deferred account. IRS tax guidelines allow catch-up contributions at the end of the calendar year for employees who are age 50 or over. Eligible employees may contribute an additional $6,000 per year, for a total of $24,000 annually. Any employee who is three years or fewer away from retirement may pay an annual maximum of $36,000 to their deferred compensation account.

Employees were accurately charged for parking. We found all the deductions for employee parking fees were accurate. We analyzed parking fees for pay checks paid on September 1, 2017; seven employees received credits for parking payments for previous periods.

Planned Oracle Upgrade Should Reduce Manual Processes, but Risks Remain

The planned Oracle upgrade will automate some manual payroll processes, which will strengthen controls, reduce risks, and shorten payroll processing times. The upgrade also contains additional self-service options for employees, including the ability to adjust voluntary deductions, such as charitable contributions, uniforms, withholdings, and MARTA deductions. Finance and AIM will need to work with Deloitte to ensure that the Oracle upgrades are implemented as planned.

Although the planned upgrade will address some current inefficiencies and risks, retroactive payments remain a risk. The interface to move time from Kronos to Oracle will run faster because historical data will not be migrated to the cloud version of Oracle; however, the lack of historical data will make it difficult to process retroactive payments. Future retroactive payments will require payroll to access data from the old and new systems to calculate total retroactive compensation earned by an employee, which will take longer for payroll to process. Currently, payroll employees must delete the pay requests each pay

period to prevent the payments from extending past the intended deadline and creating an overpayment. We recommend that the Department of Finance draft legislation for city council consideration to discontinue manual retroactive payments. Human resources and finance staff should work with AIM and Deloitte to ensure that the Oracle upgrade can process retroactive payments through automated workflows, with beginning as well as end dates for payments.

Also, payroll employees have been working to establish measurable performance goals for the payroll process, but those goals have not yet been communicated to Deloitte. We recommend payroll generate a list of performance measures that address risks that exist in the payroll process and work with Deloitte to ensure that data is captured in Oracle to track performance against the metrics.

Oracle Upgrade Will Streamline Payroll Processes and Increase Controls, but Interim Risks Must Be Managed

The Oracle upgrade will contain additional self-service capabilities for employees, including the option to adjust voluntary deductions, such as charitable contributions, uniforms, withholdings, and MARTA deductions. The upgrade will also streamline payroll processes by phasing out redundant systems such as KBACE and the garnishment management system, automating some current payroll activities, and reducing the Kronos to Oracle interface run time. Finance and AIM will need to work with Deloitte to ensure that the Oracle upgrades are implemented as planned.

Although the upgrade will address some current inefficiencies and risks, retroactive payments remain a risk. The reduction in the interface run time is possible because historical data will not be migrated to the new system. This will increase the time that it takes payroll to process retroactive payments. Future retroactive payments will require payroll to access data from the old and new systems to calculate total retroactive compensation earned by an employee.

We recommend that the Department of Finance draft legislation for city council consideration to discontinue manually retroactive payments. Human resources and finance staff should work with AIM and Deloitte to ensure that the Oracle upgrade can process retroactive payments through automated workflows, with beginning as well as end dates for payments.

The Oracle interface and retroactive reports run time will be reduced from 7 hours to an estimated 20 minutes. Deloitte expects the Oracle upgrade to reduce interface run time to no more than 20 minutes, but

they had not accessed the system as of January 2018 to confirm the processing time. The interface run time currently takes twelve or more hours. According to Deloitte, the accumulation of historical data caused slow payroll processing times in Oracle. Testing will begin in May 2018 and the new automation is planned to update payroll and AIM on the status of the interface using email. While a payroll employee will no longer need to monitor the interface onsite, they will be required to monitor their email remotely in case there are errors.

Although the upgrade will reduce interface run time, historical data will not be migrated, which will affect the existing retroactive payment process. A primary reason the interface will run faster with the Oracle upgrade is because the system will not contain historical data, which currently slows the payroll processing times in Oracle. This loss of historical data in the system includes information related to retroactive payments, which will add additional time to manually process retroactive payments. Future retroactive payments will require payroll to access data from the old and new systems to calculate total retroactive compensation earned by an employee.

The current version of Oracle requires payroll staff to delete manually entered retroactive payments because the current system does not have the functionality to input end dates. These retroactive payments must be keyed into Oracle initially and subsequently deleted each pay period. Deloitte stated that the current version of Oracle has never had the functionality to include end dates. While there are plans to resolve this system limitation in Oracle Cloud, Deloitte is working with Oracle to configure the system to allow retroactive payments from start to finish without repeating each pay cycle prior to the planned upgrade date of October 2018.

We recommend that the Department of Finance draft legislation for city council consideration to discontinue manually retroactive payments. All retroactive payments should be processed using standard turnaround documents that are approved by requesting department and human resources staff.

Human resources and finance staff should work with AIM and Deloitte to ensure that the Oracle upgrade can process retroactive payments through automated workflows, with beginning as well as end dates for payments.

The Oracle upgrade will no longer need secondary systems to process payroll. Reporting and payroll processing tools, such as KBACE and the garnishment management system, will be phased out of payroll's process. Standard reporting and processing functionality is built into

Oracle Cloud, eliminating the need for external systems. With the upgrade to Oracle Cloud, one system for both garnishments and ad-hoc financial reports gives payroll more transparency and easier access to reliable information.

Currently, payroll uses a third-party system, KBACE, to pull data from Oracle into customizable reports. The information from these reports is used to provide monthly metrics to the chief financial officer and the city controller, which include:

- total of employees paid during the regular payroll cycle
- total off-cycle checks per pay period
- total paper checks distributed by pay period and department
- overtime analysis
- compensatory time analysis

The garnishment management system is used to input garnishment withholdings for employees, including child support, bankruptcy, and court orders. This system allows single check distributions to debt collectors on behalf of the employee.

We recommend that Deloitte should develop ad-hoc reports and training materials for payroll staff.

Employee self-service capabilities in Oracle will be enhanced. New self-service capabilities planned in the Oracle cloud upgrade will allow employees to directly update voluntary deductions, such as charitable contributions, uniforms, withholdings and MARTA deductions. Once the employee completes the form in Oracle, the system will update the information to their account to be deducted. Employee inputs allow for greater transparency and accountability in the system. This upgrade will also ensure that payroll can quickly access the information needed to process transactions timely and accurately.

The current version of Oracle allows employees to update contact information, add dependents and beneficiaries, and submit direct deposit information. To make changes to voluntary deductions, the employee must fill out a paper form and submit it to human resources for input into Oracle, which is time-consuming and prone to errors. Employees can also currently view and print a copy of W-2's, tax forms, and pay slips, but cannot directly update tax withholdings in the system.

The upgrade will also include customized reports that will allow payroll and employees to verify errors that occur during the update of self-service changes. The new process will also reduce the city's liability for

documentation errors by allowing the employee, instead of human resources, to be responsible for changes.

To increase record retention and transparency for payroll and human resources, we recommend that AIM work with Deloitte to ensure the Oracle upgrade includes these expanded self-service options.

We also recommend that Deloitte test and confirm the city's interface run times within Oracle Cloud to ensure that the run times meet estimated expectations.

Performance Measures Could Allow Payroll to Monitor and Improve Process

Payroll employees told us they have been working to establish measurable performance goals for the payroll process. However, during interviews with Deloitte, we found that payroll had not communicated any specific performance measures they would like to capture in the Oracle upgrade. As a result, payroll may not be able to capture metrics to measure the effectiveness of any revised payroll processes.

Payroll currently measures some metrics outside of Oracle, including customer service, timeliness of reporting, frequency of off-cycle checks and the accuracy of their work through cross-checking, in order to manage the risks of relying on human resources and user departments for accurate information each pay period.

We recommend payroll generate a list of performance measures that address risks that exist the payroll process and work with Deloitte to ensure that data is captured in Oracle to track performance against the metrics.

Recommendations

To improve payroll processing efficiency and controls, the chief financial officer should work with AIM and Deloitte to ensure that the following planned Oracle upgrades are implemented:

1. Automate manual steps of the payroll process, as specified in Appendix C.
2. Evaluate whether the Kronos to Oracle interface can be revised to prevent negative Kronos entries from creating positive Oracle entries.
3. Configure Oracle's manager self-service portal to allow departments to complete standard off-cycle request forms and upload supporting documentation.
4. Generate a list of performance measures that address risks that exist in the payroll process and work with Deloitte to ensure that data is captured in Oracle to track performance against the metrics.
5. Develop ad-hoc reports and training materials for payroll staff.
6. Test and confirm whether the city's interface run times within Oracle Cloud meet estimated expectations.

To ensure that payroll staff receive accurate and timely information from city departments for payroll processing, we recommend that the chief financial officer:

7. Draft legislation for city council consideration to limit the time in which a payment can be retroactively approved to a maximum of 12 months, excluding payments related to litigation.
8. Draft legislation for city council consideration to discontinue processing manual retroactive payments.
9. Discontinue issuing off-cycle checks to employees without required documentation.
10. Develop, formalize, and enforce policies and procedures for managing payroll, including firm deadlines for departments to submit timecards and standardized forms with required authorizations.

To improve payroll processing efficiency and controls, the commissioner of human resources and AIM should:

11. Ensure shift differentials are accurately configured and automated for applicable departments within the enhanced Kronos system.

To ensure that hours worked are recorded accurately, we recommend that the commissioner of human resources:

12. Provide timekeepers and managers additional training on moving time correctly in the timekeeping system.
13. Calculate benefit overages paid by city employees during the 2016 and 2017 enrollment years and work with the Department of Finance to return premium overcharges to the affected employees.
14. Enforce city timekeeping policies that require employees to clock in and out each day of the pay period.

Appendices

Appendix A: Management Review and Response to Audit Recommendations

Report # 17.05	Report Title: Payroll Processing	Date: June 2018

Recommendation 1:

We recommend the chief financial officer work with AIM and Deloitte to ensure that the planned Oracle upgrades are implemented to automate manual steps of the payroll process, as specified in Appendix C.

Proposed Action: Payroll Manager and Director of Shared Service will continue working with AIM and Deloitte. **Additional Comments:** As of May 6, 2018, Deloitte and Payroll have not been able to confirm all automations for numbers 1,2,3, & #6. We were not able to automate charity contributions, shift diff, outbound interfaces, such as Voya loans and 457b, Aflac, Marta to name a few. For item #5, payroll is not the owner of the task.	**Response:** Agree
Person Responsible: Sabrina Black, Payroll Manager and Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 2:

We recommend the chief financial officer work with AIM and Deloitte to evaluate whether the Kronos to Oracle interface can be revised to prevent negative Kronos entries from creating positive Oracle entries.

Proposed Action: Payroll Manager and Director of Shared Service will continue working with AIM and Deloitte. **Additional Comments:** As of May 6, 2018, Oracle/Kronos upgrade does not have a solution to prevent negatives to creating positives in Oracle.	**Response:** Agree
Person Responsible: Sabrina Black, Payroll Manager and Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 3:

We recommend the chief financial officer work with AIM and Deloitte to configure Oracle's manager self-service portal to allow departments to complete standard off-cycle request forms and upload supporting documentation.

Proposed Action: Payroll Manager will continue working with AIM and Deloitte. **Additional Comments:** May 6, 2018: Not sure when and if this will execute. This is noted in the security managers role; however, we are not sure what tasks will be allowed.	**Response:** Agree
Person Responsible: Sabrina Black, Payroll Manager	**Implementation Date:** November 2018

Recommendation 4:

We recommend the chief financial officer work with AIM and Deloitte to generate a list of performance measures that address risks that exist in the payroll process and work with Deloitte to ensure that data is captured in Oracle to track performance against the metrics.

Proposed Action: Director of Shared Service and Controller will continue working with AIM and Deloitte.	**Response:** Agree
Person Responsible: Valencia Burwell, Director of Shared Service and Youlanda Carr, Controller	**Implementation Date:** November 2018

Recommendation 5:

We recommend the chief financial officer work with AIM and Deloitte to develop ad-hoc reports and training materials for payroll staff.

Proposed Action: Payroll Manager will continue to work with AIM and Deloitte. **Additional Comments:** We are currently working on producing ad-hoc reports with Deloitte once we go live in HCM Cloud.	**Response:** Agree
Person Responsible: Sabrina Black, Payroll Manager	**Implementation Date:** November 2018

Recommendation 6:

We recommend the chief financial officer work with AIM and Deloitte to test and confirm whether the city's interface run times within Oracle Cloud meet estimated expectations.

Proposed Action: Payroll Manager will continue working with AIM and Deloitte.	**Response:** Agree
Person Responsible: Sabrina Black, Payroll Manager	**Implementation Date:** November 2018

Recommendation 7:

We recommend the chief financial officer draft legislation for city council consideration to limit the time in which a payment can be retroactively approved to a maximum of 12 months, excluding payments related to litigation.

Proposed Action: Director of Shared Service will continue working with CFO to get Legislation approval.	**Response:** Agree
Person Responsible: Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 8:

We recommend the chief financial officer draft legislation for city council consideration to discontinue processing manual retroactive payments.

Proposed Action: Director of Shared Service will continue working with CFO to get Legislation approval.	**Response**: Agree
Person Responsible: Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 9:	
We recommend the chief financial officer discontinue issuing off-cycle checks to employees without required documentation.	
Proposed Action: Director of Shared Service will continue working with Timekeeper and Managers in remote locations. **Additional Comments:** Required documentation is off-cycle request, but escalate approval to Director level, and enforce deadlines.	**Response:** Agree
Person Responsible: Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 10:	
We recommend the chief financial officer develop, formalize, and enforce policies and procedures for managing payroll, including firm deadlines for departments to submit timecards and standardized forms with required authorizations.	
Proposed Action: Director of Shared Service will continue working with COA HR **Additional Comments:** Deadlines are already established, but COA HR & timekeepers continue to miss deadline, and Payroll is forced to accommodate. How will enforcement be handled? Payroll no longer must accommodate unless extreme situations?	**Response:** Agree
Person Responsible: Valencia Burwell, Director of Shared Service	**Implementation Date:** November 2018

Recommendation 11:	
We recommend the commissioner of human resources and AIM ensure shift differentials are accurately configured and automated for applicable departments within the upgraded Kronos system.	
Proposed Action: The department of human resources will work with AIM to determine the correct way to configure and automate shift differential in KRONOS. **Additional Comments:** Payroll not responsible for task, however, agree with recommendation.	**Response:** Agree
Person Responsible: Sherri Dickerson	**Implementation Date:** October 2018

Recommendation 12:	
We recommend the commissioner of human resources provide timekeepers and managers additional training on moving time correctly in the timekeeping system.	
Proposed Action: The department of human resources will work with the KRONOS team and AIM to develop and implement training for timekeepers and managers that will ensure accuracy in the timekeeping process. **Additional Comments:** Payroll not responsible for task, however, agree with recommendation.	**Response:** Agree
Person Responsible: Sharon Jones, OD Director	**Implementation Date:** October 2018

Recommendation 13:

We recommend the commissioner of human resources calculate benefit overages paid by city employees during the 2016 and 2017 enrollment years and work with the Department of Finance to return premium overcharges to the affected employees.

Proposed Action: The department of human resources will work with the department of finance and all other stakeholders to ensure employees are credited for any premium overages. In addition, the department will develop a process to ensure overages are not deducted. **Additional Comments:** Payroll not responsible for task.	**Response:** Agree
Person Responsible: Louis Amis, Employee Benefits Director	**Implementation Date:** July 2018

Recommendation 14:

We recommend the commissioner of human resources enforce city timekeeping policies that require employees to clock in and out each day of the pay period.

Proposed Action: The department of human resources will work with AIM to ensure that automated timekeeping methods are accessible to employees. In addition, employees will be provided the timekeeping policy and held accountable to following said procedures. **Additional Comments:** Payroll not responsible for Kronos however, agree with recommendation.	**Response:** Agree
Person Responsible: Sherri Dickerson	**Implementation Date:** September 2018

Appendix B: Calendar Year 2017 Payroll Schedule

Pay Period	Pay Period Begin Date	Pay Period End Date	Check Date
1	12/15	12/28	1/6/2017
2	12/29	1/11	1/20/2017
3	1/12	1/25	2/3/2017
4	1/26	2/8	2/17/2017
5	2/9	2/22	3/3/2017
6	2/23	3/8	3/17/2017
7	3/9	3/22	3/31/2017
8	3/23	4/5	4/14/2017
9	4/6	4/19	4/28/2017
10	4/20	5/3	5/12/2017
11	5/4	5/17	5/26/2017
12	5/18	5/31	6/9/2017
13	6/1	6/14	6/23/2017
14	6/15	6/28	7/7/2017
15	6/29	7/12	7/21/2017
16	7/13	7/26	8/4/2017
17	7/27	8/9	8/18/2017
18	8/10	8/23	9/1/2017
19	8/24	9/6	9/15/2017
20	9/7	9/20	9/29/2017
21	9/21	10/4	10/13/2017
22	10/5	10/18	10/27/2017
23	10/19	11/1	11/9/2017
24	11/2	11/15	11/22/2017
25	11/16	11/29	12/8/2017
26	11/30	12/13	12/22/2017

Source: Payroll staff

Appendix C: Expected Automated Manual Steps of Payroll Process

To improve accuracy and transparency, we recommend that payroll staff work with AIM and Deloitte to ensure that:

1. departments can input their own timecard corrections into Kronos.
2. new interface automation is functional and can notify payroll and AIM on the status of the interface using email to notify the status and error messages.
3. the Oracle upgrade can process retroactive payments through automated workflows, with beginning as well as end dates for payments.
4. the Oracle upgrade includes new self-service capabilities planned allowing employees to directly update voluntary deductions, such as charitable contributions, uniforms, withholdings and MARTA deductions.
    a. include customized reports that will allow payroll and employees to verify errors that occur during the update of self-service changes.
5. the Oracle upgrade will allow benefit rate entries by pay period, instead of the monthly rate, which should reduce many of the rounding errors.
6. the Oracle upgrade can process garnishment check distributions to debt collectors on behalf of the employee.

Payroll Processing