

INTERNAL AUDIT DEPARTMENT

INTEROFFICE MEMORANDUM

Date: July 15, 2009

To: Honorable Mayor Ron Jones

Members of the City Council
Members of the Audit Committee

cc: Priscilla Wilson, Senior Managing Director, Human Resources

From: Craig Hametner, City Auditor

Subject: Payroll Check-Off Audit – Follow-up

This is a follow-up of the report "Payroll Check-Off Audit" issued on June 30, 2008.

The original audit was an examination of the payroll process. The audit was not intended to be a detailed study of every relevant system, procedure, and transaction. They did not find any instances of fraud, waste, or abuse within the process. In the original report, we found that there were twenty-one employees who were not receiving paychecks yet remained in an active status in the payroll system and the City paid insurance for two terminated employees for one month after termination. We also found that policies and procedures were missing for disbursement of payroll checks and direct deposit advisements.

The following are the recommendations that were made with responses:

1. We found twenty-one employees who were not receiving paychecks yet remained in an active status in the payroll system.

Recommendation was: management should terminate every employee who has not worked in the last thirty work days unless there is a specific reason for keeping them active, such as leave without pay, short-term disability, or family medical leave.

The City Manager should review and approve any request to keep an employee active when they are not actually working.

Human Resources should monitor employees who do not receive checks but remain active in the payroll system. The department managers would be notified when an employee is not receiving a check and that City Manager approval is required to keep the employee on an active status.

200 N. Fifth Street Garland, Texas 75040 972-205-2248 **Response was:** Human Resources and Financial Services will monitor the existence of employees who do not receive checks but remain active in the system and follow-up with the departments where these employees are being kept on active status. Also, Human Resources and Financial Services will provide guidance on this matter at the quarterly PAF rep meetings.

Follow-up: We generated a crystal report from P2K Payroll System and exported it into Excel and selected the exceptions by comparing employees that got paid on March 13, 2009 to active employees. We found 22 active employees that did not receive a pay check on March 13, 2009. We verified their status and last working day in P2K. We flagged 17 employees whose last working day was more than 30 working days of their last working day as of April 6, 2009. The remaining 5 had not exceeded 30 working days without receiving a paycheck. We obtained possible explanations as to why a terminated employee would maintain active status when they have not received a paycheck in 30 working days after their last working date. Per the Human Resources Representative, temporary employees may be listed as active but have not received a recent paycheck. Possible reasons include:

- Employee works on an irregular schedule, for example nurses during immunization and flu season or school crossing guards who serve as substitutes and need to be ready to work at a moments notice
- Employee has left the City but the department has not sent the termination paperwork to HR
- Employee comes back to work every year and the department does not want to go through the extra work of terminating and rehiring them

Per the Financial Services Accounting Supervisor, Finance Services has not been monitoring employees who have not received a paycheck but remain active in the system.

Per the Workforce and Administrative Services Manager, HR has not been monitoring employees who have not received a paycheck but remain active in the payroll system but informally addresses departments when it comes to their attention. HR did address this issue at the two PAF Rep meetings following the issuance of the Payroll Check-Off Audit in June 2008.

Per discussion with the Workforce and Administrative Services Manager, every six months HR has agreed to monitor those employees who are in active status but have not received a paycheck in the last six months. In the event that this occurs, HR will contact the department and notify them that they need to complete a Letter of Understanding for Temporary and Part-Time Employee Positions or the employee will be terminated. Also, it was addressed that HR will devise a policy and/or form for all those that are exceptions, i.e. nurses and school crossing guards.

Recommendation was Partially-Implemented. The changes are that HR will monitor every six months instead of every 30 days.

2. We found the City paid insurance for two terminated employees for one month after termination.

Recommendation was: Human Resources further investigate the billing question and determine if the action is a standard practice or an error in billing. If we are billed in error, Human Resources should review the 2007 billings and calculate the amount of overcharge and request a refund of the charges.

Response was: In January, Financial Services took over responsibility for the payment of the various insurance premiums. The reason for this action was to insure the proper payment of premiums to insurance vendors and to eliminate reconciling differences between payroll deductions and vendor premium payments. The discrepancies noted in the audit should be pursued since they occurred in September and October, 2007.

Follow-up: We received FiServ and Cigna billing details from Human Resources for October and November 2007 and verified the credits were made reimbursing the City for these two employees' premiums. Per the HR Benefits Coordinator, the City has their online enrollment tool with FiServ Health, which means that even though the employee is on CIGNA, the City of Garland still needs to pay the vendor for the enrollment tool fee on a per employee per month basis. Due to timing issues and termination dates, the City may be billed for terminated employees with a reimbursement being issued up to two months after termination.

We generated a Crystal Report showing all terminated employees during FY09. We selected those terminated in January 09 and obtained Cigna Coverage Summary screen prints from the HR Benefits Coordinator showing their coverage cancellation date. Of the 8 terminated in January, three were retirees and still receive benefits as part of their retirement. Per the HR Benefits Coordinator, beginning 2009 the City of Garland benefits plan option is self-funded. This means the City no longer gets a full eligibility census from the vendor as all employees are with one carrier. The bills are paid depending on the number of employees the system reflects against the number of employees Cigna shows enrolled. Once employees are dropped, they no longer appear in the file. We reviewed the February 2009 spreadsheet that is generated by Cigna and verified that the City did not pay February premiums for the non retired January terminated employees.

Recommendation was Fully-Implemented.

Policies and procedures are missing for disbursement of payroll checks and direct deposit advisements; the City should consider on-line payroll check stubs; Finance payroll directives should be updated.

Recommendation was: Human Resources develop a directive that establishes a standard citywide policy for distributing and securing paychecks and direct deposit advisements.

Additionally, we recommend Financial Services undertake a campaign to encourage all employees to participate in the direct deposit program. In lieu of printing paychecks and direct deposit advisements, Human Resources should undertake advertising the availability of the online access program for employees wanting to view their personnel and payroll information. The online process would eliminate the need for a new directive on distributing

checks and advisements, printing checks and advisements, and manually distributing and securing the pay documents. Human Resources should investigate the possibility of allowing employees to access the online system from their home computer.

Financial Services should update Finance Directives 2 and 3 to reflect the current practice of releasing checks and advisements to department representatives. Additionally, the list of employees authorized to pick up paychecks and advisements should be updated.

Response was: All new hires are required to participate in direct deposit of payroll. Also, in the near future Human Resources and Financial Services will be testing the use of Stored Value cards. The Stored Value Card program is an electronic method of paying the current employees that do not participate in direct deposit.

Financial Services will update Finance Directives 2 and 3 to reflect the prescribed payroll distribution procedures.

Follow-up: We generated a Crystal Report and found 60 new hires between January 1, 2009 and March 12, 2009. We then generated a Crystal Report of all new hires who received direct deposit and compared the two reports. We verified that 57 of the 60 new hires receive direct deposit. However, three new hires did not receive direct deposit because they failed to provide HR with the direct deposit paperwork. Per Human Resources, new hires are required to fill out a direct deposit form during new hire orientation. If new hires do not have their banking information, they are informed about the implementation of electronic payroll cards. Until the new payroll process is fully implemented, new hires who do not submit a completed direct deposit form will be issued paper checks. The Finance Department has transitioned payroll to be distributed 100% electronically, through direct deposit and electronic payroll cards.

Per the Financial Services Cash Manager, Finance Directive #2, Release of Payroll Checks, and Finance Directive #3, Final Payroll Check Preparation, have not been updated. Upon implementation of the new electronic payroll cards, the directives will be updated.

Per the Financial Services Payroll Technician and observed by internal audit, a binder is maintained showing all employees authorized to pick up paychecks and it is updated each pay period.

Recommendation was Partially-Implemented.

We want to thank management and staff for their assistance on this follow up audit. Their assistance was essential for the successful completion of our work.