

Report #2021-04

PAYROLL CODES AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

12.22.2020



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Acknowledgment

We would like to thank Finance, Human Resources and various departmental personnel for the support and assistance provided to us throughout this project.

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This report is also available online at <http://www.glendaleca.gov>

A. Overview

Key Outcomes

Payroll codes are used to ensure employees receive compensation correctly. There are routine base pays that are tied to employees’ positions as well as additional pays that are based on memoranda of understanding (MOUs) negotiated between the City and the employee bargaining groups. This audit focuses on reviewing additional pays because they are only eligible to employees when specific conditions are met. Based on Internal Audit testwork, 16 employees were incorrectly receiving additional pays. Internal Audit recommends additional ongoing Quality Control steps to ensure that employees receive additional pays correctly, that the required conditions are met, and that errors are detected in a timely manner. Internal Audit also recommends documenting existing and newly established controls including oversight structure and responsibilities.

Internal Audit identified two improvement opportunities related to risk reduction, compliance, cost saving, and efficiency as illustrated in the dashboard below.

Impact Dashboard

This table summarizes the applicable value-added categories (total 7) for the two recommendations based on their priority rankings.

	Value-Added Categories				Innovation Opportunities
	Compliance	Cost Saving	Efficiency	Risk Reduction	
Priority 1 1	1	1	1	1	0
Priority 2 0	0	0	0	0	0
Priority 3 1	1	0	1	1	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Enhance controls to ensure that additional pays are paid correctly based on MOU terms. <i>Value added:</i> Compliance , Cost Reduction , Efficiency , Risk Reduction	03/31/2021
Priority 3		
2.	Document comprehensive policies and procedures for administering additional pays. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	09/30/2021

C. Background

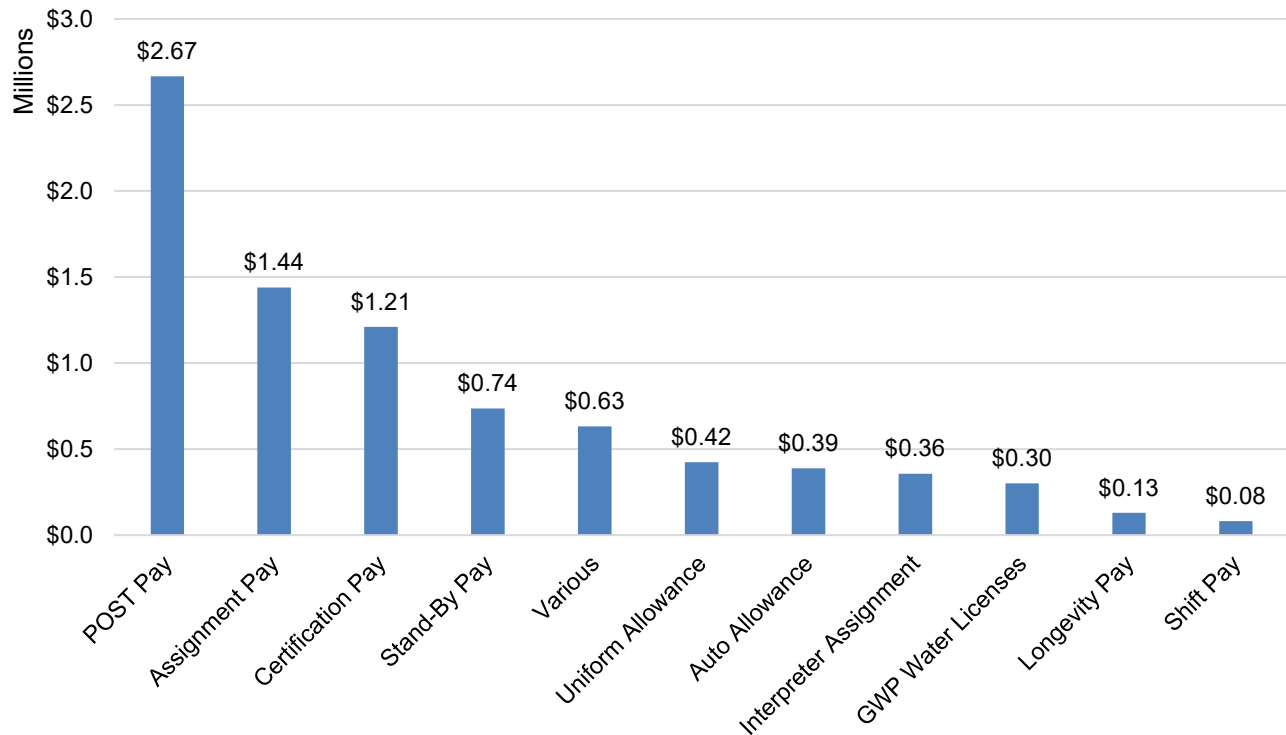
In accordance with the Fiscal Year (FY) 2020-21 Audit Work Plan, Internal Audit performed an audit of the Payroll Codes. Payroll codes are administered by the Payroll Division (Payroll) under the Finance Department (Finance) in coordination with the Human Resources Department (HR).

Origin of Payroll Codes

According to employee bargaining group MOUs, a base salary is defined as only the assigned salary to any bargaining unit classification exclusive of any other type of compensation. Extra pays, or additional pays are defined as compensation above the base salary for special assignments, differentials, certifications, etc. Additional pays that were reviewed in this audit, are all detailed in various MOUs; these result from negotiations between employee bargaining groups and the City, which are approved and adopted by City Council.

Additional Pays

Depending on eligibility, employees can receive various additional pays in addition to their base salary. There are more than 100 additional pays available, and they are granted to employees for a variety of reasons including as an incentive to become certified in one's position, to reward employees that have specialized skills, to compensate employees for being available during non-regular hours, etc. Figure 1 shows all in-scope additional pays, grouped by Internal Audit into broad categories and the total amounts paid for each category in FY 2019-20.

Figure 1: Additional Pays by Category in FY 2019-20¹

Additional pays are typically described in MOUs with their purpose, the compensation amount, qualifications including eligible positions and other conditions that must be met prior to initiation of pay, and applicable limitations. Negotiations between employee bargaining groups and the City occur periodically based on the terms of the MOUs, and any resulting changes, such as new additional pays, or discontinuation of existing additional pays, are typically updated in new MOUs. Changes resulting from these negotiations prompt staff from HR and Finance to meet and determine whether any new additional pays need to be added to Munis, the City's Enterprise Resource Planning Software, in order to ensure that employees receive the correct additional pays.

Setting Up New Additional Pay Codes

Once an additional pay is identified from a MOU and needs to be added to Munis, the Payroll initiates the process of adding the pay through the following steps:

1. Payroll reviews the existing list of pay codes to ensure that the new pay code is not duplicative.
2. Payroll sets up the pay in the Pay Master module in Munis.
3. Payroll, in coordination with HR and labor law attorneys, as necessary, determines whether the new pay is subject to overtime.
4. Payroll notifies HR to add the new pay code to the Munis workflow in order to make the pay code available for use by department liaisons.

¹ The Various category of pays includes Physical Fitness, Tuition and Mileage Reimbursement, Holiday In-Lieu, Retention Pay, Meal Allowance, Cell Phone Stipend, and Acting Assignment.

5. Department liaisons use Munis to request a pay code to be added to an employee. Once the request is routed through Munis with proper approvals, Payroll adds the pay to the applicable employee.
6. If the new pay code should also be pensionable, Payroll updates the California Public Employees' Retirement System parameter reports accordingly; this determination is also made in coordination with HR.

Requesting Additional Pays for Employees

Employee additional pays are initiated by departments through Munis "Personnel Action Entry". Any required supporting documentation, such as employees' certifications, are also uploaded to Munis to be reviewed and approved through Munis workflow.

Monitoring Additional Pay Conditions

Each additional pay has qualifying conditions and applicable limitations, some of which can be complicated and difficult to monitor. There is no designated entity that centrally monitors all the pay conditions. Depending on the additional pay, its conditions could be monitored by HR, Finance, City Manager, and/or various departments. According to HR and Finance staff, HR monitors conditions for Acting and Interpreter Assignments; Finance monitors Auto Allowances, Physical Fitness Pays, Retention Pays, and Tuition Reimbursements; and departments generally maintain and monitor Certification and Assignment Pays; however, these monitoring responsibilities are not documented in policies and procedures. Appendix 2 illustrates three pays that were found to have multiple conditions attached to them, and/or had conditions that appear to be difficult to monitor.

D. Objective, Scope and Methodology

The objective of this audit is to determine whether adequate controls are in place to ensure that pay codes are set-up in Munis according to conditions described in various MOUs, and that employees are receiving additional pays accurately.

The scope of this audit covers additional pays that originated from various MOUs that were in Munis as of September 2020, and with payments to employees during the time period of July 1, 2019 to June 30, 2020.

In order to accomplish the audit objectives, Internal Audit performed the following:

- Interviewed staff from Finance, HR and a representative from an employee bargaining group about the payroll codes process.
- Reviewed MOUs that are in effect for all employee bargaining groups to identify authoritative sources for all additional pays.
- Performed completeness review of one sampled MOU to ensure that a pay code is created within the Pay Master for each additional pay documented in this MOU through a word search.
- Reviewed all in-scope additional pays, 146 pays in total, to ensure that the pay code name and the amount set-up in Munis are sourced from appropriate supporting documentation, and tested that employees are in the correct position and bargaining group for all in-scope pays for August 2020.
- Sampled² 40 additional pays and verified that employees are receiving the pays accurately, and that controls are adequate to ensure MOU specified pay conditions are satisfied.

As a result of these audit procedures performed, two observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

² The sample was selected using a combination of a weighted risk methodology that included parameters such as the pay amount, the pay percentage, and the total paid amount in FY 2019-20, with higher values equaling higher risk, and a judgmental selection of pays to ensure a wide representation of pay categories in the sample.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Additional Pay Discrepancies		
Priority 1	<p>Based on a testwork of matching Munis pay code set-up for the 146 in-scope additional pays against MOUs, and sampling payments made to employees in August 2020, Internal Audit found the following discrepancies from 10 (or 7%) additional pays that affected 16 employees, with dollar impact ranging from zero to \$7,900 for FY 2019-20:</p> <ul style="list-style-type: none"> • 1 employee had a position change in the City, and the pay associated with the previous position migrated with the employee to the new position. • 5 employees had a position change that also prompted a bargaining group change, and the pay associated with the previous position migrated with the employees to the new position. • 8 employees were assigned an incorrect pay code and were receiving the incorrect pay amount. • 2 employees were assigned incorrect pay codes but were receiving the correct pay amount. 	<p>Payroll perform the following:</p> <ol style="list-style-type: none"> 1. Review the identified discrepancies and make necessary adjustments. A detailed list of all discrepancies was provided to Payroll for review and follow-up. 2. Enhance controls to improve accuracy and efficiency by ensuring that employees are receiving additional pays based on the correct position, bargaining unit, the correct amount and all other conditions based on MOUs. 	<p>Agrees and will implement by March 31, 2021.</p> <ol style="list-style-type: none"> 1. All identified discrepancies have been verified and are in the process of being corrected. 2. The following controls will be implemented: <ol style="list-style-type: none"> a. Effective March 31, 2021, the additional pay report will be sent to departments for review on a periodic basis, and after the close of MOU negotiations and implementation of any changes to pay codes. b. All fields within Pay Master in Munis are being utilized and Payroll is unable to implement automated Quality Control reporting. Instead, effective immediately, all Payroll staff will cross-check personnel actions when additional pays are added or removed to verify accuracy.

Ref	Observation	Recommendation	Management Response
2. Policies and Procedures			
Priority 3	<p>Desk procedures currently exist for adding new pay codes; however, they do not document all existing key controls related to administering additional pays. For instance,</p> <ul style="list-style-type: none"> • The oversight structure that clarifies the responsible party for adding all additional pays from MOUs to Munis. • The responsible party for referencing all additional pays in Munis to MOUs. • The supporting documents that should be maintained by Payroll for entering all required additional pay parameters. • The responsible departments for monitoring all related pay conditions. See Appendix 2 for a sample of pays with multiple pay conditions. <p>Additionally, any initial pay set-up and ongoing Quality Control procedures over actual additional pays made to employees against specific MOU conditions and limitations are not documented.</p>	<p>Payroll document the following existing and new procedures:</p> <ol style="list-style-type: none"> 1. Oversight structure, including segregation of duty considerations, to clarify party responsible for administration of additional pays, ensuring that all additional pays are added from MOUs to Munis correctly and timely. 2. Clarify the responsible party that will ensure that additional pays that are set-up in the Munis Pay Master are tied to legitimate pays in MOUs. 3. Specify supporting documents maintained by Payroll for setting up all additional pay parameters. 4. Clarify responsible parties that monitor all related pay conditions. 5. Procedures for initial and ongoing Quality Control process to ensure that pays are set-up correctly and paid out accurately. 	<p>Agrees and will implement by September 30, 2021.</p> <p>Payroll & HR will determine how best to document the oversight structure and the existing and new procedures, and implement them by September 30, 2021.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.

Appendix 2: Examples of Additional Pays with Multiple Conditions³

Pay	Pay Conditions
Evening Shift Differential	<ol style="list-style-type: none"> 1. Must work from 3pm-12am, for a minimum of 4 hours. The minimum hours can be within Evening Shift, Night Shift, or a combination of Evening and Night Shift. 2. Employees in the classifications of Police Communications Operator and Police Communications Shift Supervisor cannot receive this pay. 3. Cannot receive Overtime Pay, Standby Pay, Call Back Pay, Communications Assignment Pay or Police Custody Assignment Pay while receiving Evening Shift Differential Pay. 4. Employees that work the night shift in the Police Record Bureau between 4am-7am do not have to work the minimum 4 hours.
Admin Assignment Pay	<ol style="list-style-type: none"> 1. Cannot work the 3/12 work schedule. 2. Any employee who is not regularly assigned to Administrative Non-3/12 Pay, but is placed on this schedule due to assignment in Professional Standards Bureau or a Temporary Modified Assignment cannot receive this pay. 3. Unit employees receiving extra compensation for the assignments of: K-9 Officer, K-9 Vice-Narcotics, Helicopter Pilot (trainer and non-trainer), Helicopter Observer, Motorcycle Duty, Emergency Medical Technician Program, Master Police Officer Program and Arson Investigator as set forth in Article Two, shall not receive additional compensation under the provisions of the Administrative Non-3/12 Assignment Program. 4. Patrol Personnel temporarily assigned (on loan) to a non-3/12 assignment shall not be eligible to receive the Administrative Non-3/12 Assignment Pay unless the temporary assignment extends beyond 30 days. 5. Should a unit employee assigned to the Administrative Non-3/12 Assignment Program be unable to perform that function due to a non-job related illness or injury for a period of 15 working days or more, this assignment compensation shall be suspended for all scheduled work days not worked in excess of the first 15 working days and until the day he/she returns to this full duty assignment. 6. Shall be paid only during those periods or portions thereof when such unit employees are actually assigned to the Administrative Non-3/12 Assignment Program.
Meal Allowance	<ol style="list-style-type: none"> 1. <u>Emergency Call Back</u>: In excess of 4 hours and with less than 2 hours advance notice, meal reimbursement shall be provided, and also for each time period in excess of 4 hours worked thereafter. 2. <u>Early Call-In</u>: Meal reimbursement shall be provided if an employee is called in early with less than 2 hours advance notice. 3. <u>Extended Shift</u>: Meal reimbursement shall be provided for an employee who works in excess of 3 hours prior to or past the normal expiration time of the shift and for each 4 hour time period following normal expiration of regularly scheduled shift worked thereafter. 4. <u>Scheduled Call-Back</u>: Meal reimbursement shall NOT be provided for scheduled call back. For scheduled call-back in excess of 8 hours, extended shift rule applies. 5. <u>Travel Time-Water Division Standby</u>: Unit employees of the Water Division on standby assignment, who are compensated for travel time when called back to work shall have that travel time applied to the hours work as set forth in 1 to 3 above.

³ The pay conditions highlighted above are compiled by Internal Audit based on various bargaining group MOUs for illustration purposes only. The pays above may have control systems separate from Munis, such as timekeeping systems that are out of scope for this audit.