



Human Resources Payroll Audit Report

Issued by the
Internal Audit Office
February 23, 2011

**City of El Paso
Internal Audit Office
Human Resources Payroll Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Human Resources Payroll Division. Based on the results of the audit, (five) findings were identified to indicate operational weaknesses in the processing and monitoring of payroll activities completed from September 1, 2010 to February 1, 2011. All (five) of these findings are considered significant in nature.

Listed below is the summary of the (five) findings identified in this report.

1. Of the 20 Policies and Procedures supplied by HR Management for review:
 - Four out of 20 (20%) of them could not be located on the department's Personnel drive (P-Drive).
 - 12 out of 20 (60%) of them have a different version or format located in a folder on the P-Drive.
 - 20 out of 20 (100%) did not exhibit a revision date making it difficult to identify the most current version.
 - Finalized Policies and Procedures are located in an electronic folder titled "Employee Name" on the P-Drive.
2. Based on the review of Accident With Pay (AWP) schedules, the AWP process is a manual process:
 - There is no initial review process for AWP files or the AWP required calculations.
 - The AWP procedures do not provide adequate guidance for the required calculations.
 - 73% of approved AWP requests are listed on the AWP schedules because the employee owes the City of El Paso money as a result of overpayments while on AWP.
3. KRONOS is not being used to monitor and manage Family and Medical Leave Act (FMLA) requests.
4. The Staffing Table Change (STC) Request Form is a paper document that during the process physically changes hands five times in the Office of Management and Budget and three times in Human Resources Information Systems.
5. A survey of HR Payroll and HRIS personnel was taken, to assess the type and quantity of training given each employee regarding PeopleSoft HR and KRONOS. 12 out of 12 (100%) surveys distributed were completed and returned. The results are as follows:
 - 8 out of 12 (66.67%) respondents state they have not had any formal (vendor) training in PeopleSoft HR or KRONOS in the last 5 years.
 - 4 out of 12 (33.33%) respondents state they have not had any informal (interdepartmental) training in PeopleSoft HR or KRONOS in the last 5 years.
 - 11 out of 12 (91.67%) respondents feel that additional training in PeopleSoft HR and/or KRONOS would help them perform their duties more effectively and efficiently.
 - 4 out of 12 (33.33%) respondents stated they did not have access to PeopleSoft and/or KRONOS User Manuals or reference materials within their department.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

In Fiscal Year 2010-2011 several departments and divisions were reorganized into different portfolios. One of these divisions was the OMB Insurance and Benefits Division which was previously part of the Office of Management and Budget Department (OMB). As a result of these changes the current Risk Manager now reports to the Director of Human Resources and assumed the Human Resources Payroll function.

The Human Resources Payroll Division administers and provides quality control for the PeopleSoft and KRONOS Human Resources Information Systems. They manage and maintain all Human Resources databases and provide management reports. They prepare and coordinate payroll for active employees by tracking time and attendance through an automated time capture and recording system. Maintenance and storage of employee files is accomplished in this division as well.

AUDIT OBJECTIVES

The objectives of this audit were to conduct audit work related to the internal controls over the Human Resources Payroll function at the City of El Paso Human Resources Payroll Division to ascertain if procedures currently being utilized are operating as intended by management. Another objective was to determine if the payroll procedures used by the El Paso Human Resources Payroll Division are consistent with the City of El Paso Policies and Procedures.

The Risk Manager requested an audit to address concerns in the following areas.

- What is the process for Classification of employees (i.e., Civil Service, and Non-Civil Service and Full-Time/Part-Time)? Does the Human Resources Payroll function have standard work codes, action codes, and job codes that are used on a consistent basis?
- Who are the Functional Experts, for example Human Resources Manager, Human Resources Analyst, and Human Resources Specialist? Please note these titles are not all inclusive for the Human Resources payroll area.
- Does the Human Resource function have Policies and Procedures Manuals? Are they user friendly? Are they current?
- What is the current process for handling Sick Leave, FMLA deductions, Accident with Pay (AWP), Retroactive adjustments, Pay Raises and Vacation entries?
- Determine if an effective system of segregation of duties exists within Human Resources Payroll area?

This audit also determined if the City of El Paso Human Resources Payroll Division is operating in a control conscious environment. We characterize a control conscious environment as having the following:

- An adequate level of internal control awareness,
- Proper separation of duties,
- Existence of a proper monitoring system,
- Appropriate authorization/approval of expenditures,
- Adequate safeguarding of financial, physical, and information assets.

City of El Paso
Internal Audit Office
Human Resources Payroll Audit

AUDIT SCOPE

The audit period covered the operations of Fiscal Year 2010 – 2011.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Human Resources Payroll management and staff;
- Conducted an analysis of the Human Resources Payroll Division's training history;
- Reviewed the Human Resources Payroll Division's applicable Policies and Procedures;
- Reviewed for a proper system of segregation of duties;
- Conducted a review for proper safeguarding of financial, physical, and information assets.
- Conducted a review for the existence of a proper monitoring system with regards to Accident with Pay (AWP), Family and Medical Leave Act (FMLA), and Retroactive pay adjustments.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those 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.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding: 1

Policies and Procedures

A review of 20 Human Resources Payroll Division’s Policies and Procedures identified that up to date and user friendly Policies and Procedures Manuals are not being maintained.

Finalized policies and procedures are located in an electronic folder titled “Employee Name” on the P-Drive.

Of the 20 Policies and Procedures supplied by HR Management for review:

- Four out of 20 (20%) could not be located on the department’s Personnel drive (P-Drive).
- 12 out of 20 (60%) have a different version or format located in a folder on the P-Drive.
- 20 out of 20 (100%) do not exhibit a revision date making it difficult to identify the most current version.
- 13 out of 20 (65%) could not be located by number or effective date in the “Employee Name” folder. (The folder for all finalized procedures per the employee.)

Recommendation:

Management should ensure that the most up to date Policies and Procedures are on the P-Drive and on the Department’s website where applicable.

Management’s Response:

HR Payroll will consolidate all the updated Policies and Procedures in one file in the P-Drive. HR Payroll will review existing policies and procedures, update where needed, and date the latest version of each policy and procedure. Old files with various policies and procedures will be deleted or stored in a different fashion for historical purposes. Updated policies and procedures will also be available through the City’s website.

Responsible Party:

Carlton Myers, Human Resources Manager

Implementation Date:

Currently in progress. Completion date - August 1, 2011

Finding: 2

AWP Process

The AWP process needs to provide accurate and consistent calculations and mitigate as many manual operations as possible to attain the correct supplemental payment.

- Based on the review of AWP schedules, the AWP process is a manual process:
 - A paper file is prepared containing copies of all forms and of all workers' compensation payments made to the employee.
 - All payroll calculations prior to entering the information into PeopleSoft HR are manually computed and hand written onto the forms and records.
 - The employee's federal withholding tax is manually looked up in the IRS Publication 15 (Circular E).
 - The AWP listings are manually updated every pay period and then they are manually transferred to the master listing on a password protected 3.5 floppy diskette.
 - The Pre-Injury Net Pay pre-printed form is used to manually calculate FICA and Medicare withholding, and appear to be done incorrectly.

- Based on the review of Procedures:
 - There is no initial review process for AWP files or the AWP required calculations.
 - The AWP Procedure does not provide adequate guidance for the required calculation of payroll taxes for Pre Injury Net Pay.
 - Nor does it provide clear differences between uniformed and non-uniformed employees.

- A review of 253 approved AWP requests as of 1/15/2011 identified 185 (73%) overpayments to employees of the City of El Paso.
 - Of the 185 overpayments 111 (60%) are uniformed employees.

Recommendation:

Management should utilize a software solution that will automate calculations and eliminate as many of the manual processes as possible.

Management's Response:

The staff time dedicated to the calculation of Accident With Pay (AWP) supplemental pay increased with the 2000 implementation of PeopleSoft. The gross up calculation application required for this type of calculation was not purchased at that time. This was verified during the 2009 Oracle Fit-Gap interviews.

All six HR Payroll staff members are involved in calculating AWP supplemental pay for affected City employees from different departments. It takes 86 staff hours/week for an annual cost of \$81,880.24 in staff time. The total paid in AWP in FY10 was \$411,802.00. This does not include the cost to the City to pay the employee and employer portion of the pension amounts required under the City's Pension Ordinance and employee and employer portions of FICA and Medicare taxes as part of the supplement.

**City of El Paso
Internal Audit Office
Human Resources Payroll Audit**

HR Payroll management will look at the following options for AWP:

1. Eliminate the AWP supplement for all employees. This is Human Resources' recommended action. This would require a repeal of Section 4.4, Accident with Pay Leave, of Ordinance 8064. It would also require eliminating the AWP leave from the police and fire collective bargaining agreements as well as amending the City's Pension Ordinance. Payroll staff can be utilized to enhance other essential and necessary payroll functions.
2. Work with IT staff to develop a software solution that will insure the integrity of the data and will minimize manual calculations and entries. This option will be addressed immediately and also during the PeopleSoft fit-gap analysis. A review of how the supplement is calculated will also take place during April 2011 to determine if the calculations adhere to Ordinance 8064.
3. Limit AWP leave for employees covered under collective bargaining contracts to 30 days AWP leave status similar to that available to non-collective bargaining employees and continue providing the benefit.
4. Analyze the cost of purchasing a fully insured disability policy for job-related injuries that would provide proportionate short-term disability payments.

Responsible Party:

Irene Y. Morales, Risk Manager

Implementation Date:

July, 2011

**City of El Paso
Internal Audit Office
Human Resources Payroll Audit**

Finding: 3

FMLA Process

Employees are required to submit specified documentation in order to qualify for leave under FMLA. The Human Resources Department processes the documents and approves or denies the employee's request. The Human Resources Department uses KRONOS to monitor and manage vacation, sick leave, jury duty, conferences, funeral leave etc.

KRONOS is not being used to monitor and manage FMLA requests. Currently an HR Analyst is manually tracking FMLA cases on an Excel spreadsheet.

Recommendation:

Schedule and conduct the training necessary for the payroll personnel to be proficient with the operations of the KRONOS FMLA module.

Management's Response:

In December of 2010, a study was conducted by HR Payroll staff in order to determine whether the City of El Paso should utilize the PeopleSoft or KRONOS Systems for tracking and maintaining FMLA eligibility, balances, and usage.

The study concluded that we continue to utilize the KRONOS system due to the fact that the payroll clerks currently have access to KRONOS and are familiar with that system. They do not have access to PeopleSoft which would require significantly more training as well as authorization issues.

As HR continues to investigate decentralization, the department personnel will take on additional responsibility in handling the FMLA process. The FMLA process will be included in the upcoming PeopleSoft fit-gap analysis to determine if the City will continue to use KRONOS. Instituting changes in business practices will also be considered.

Decision on whether we will continue with KRONOS should be completed by July 2011. If decision is made to keep KRONOS, HR will complete training of department personnel by August 31, 2011. If the decision is made to eliminate KRONOS and transfer to PeopleSoft, HR will review the available FMLA module and determine what business practices need to be changed by using in PeopleSoft. Customization of either module will be kept to a minimum. HR estimates that any customization and training of all departments should be completed by November, 2011.

Responsible Party:

Mary Michel, Senior Human Resources Analyst

Implementation Date:

November 2011

Finding: 4

Staffing Table Changes

The Staffing Table Change (STC) Request Form is a paper document used by Department Heads to secure authorization to either add or delete positions from their current authorized staffing levels.

A review of the STC process identified that

- During the process the STC document physically changes hands 5 times in the Office of Management and Budget and three times in Human Resources Information Systems.
- Thus making it difficult to determine the status of the Staffing Table Change request.

Recommendation:

Conduct an assessment to seek a software solution through PeopleSoft HR.

Management's Response:

HR Payroll Staff and OMB Staff have revised the STC form. The revised form is currently being utilized Citywide. It is located on the Citywide public drive under payroll forms. OMB staff has received various recommendations for changes from the departments and, with input from HR Payroll staff, have incorporated the changes in the new form.

HR Payroll and OMB staff members will work with IT staff to determine a workflow solution through PeopleSoft keeping the upcoming implementation in mind. HR Payroll and OMB staff will continue to work on a policy and procedure to accompany this form/workflow. Once completed, all information will be posted on the public drive and the website. HR staff and OMB staff will conduct joint training sessions of department budget and payroll staffs and HR Department Managers on how and when to utilize the staffing table change.

Responsible Party:

Irene Morales, Risk Manager

Implementation Date:

September 1, 2011

Finding: 5

Training in PeopleSoft HR and KRONOS

Training Program's objectives are to maintain a professional and competent trained staff that can perform their duties efficiently and effectively.

The HR Payroll and HRIS Divisions do not have an adequate number of functional experts in PeopleSoft HR and KRONOS. Only one HR Manager and one HR Senior Analyst within these divisions is considered a functional expert in PeopleSoft HR and KRONOS.

- A survey of HR Payroll and HRIS personnel was taken. 12 of 12 (100%) surveys distributed were completed and returned. The results are as follows:
 - 8 of 12 (66.67%) respondents state they have not had any formal (vendor) training in PeopleSoft HR or KRONOS in the last 5 years.
 - 4 of 12 (33.33%) respondents state they have not had any informal (interdepartmental) training in PeopleSoft HR or KRONOS in the last 5 years.
 - 11 of 12 (91.67%) respondents state they feel that additional training in PeopleSoft HR and/or KRONOS would help them perform their duties more effectively and efficiently.
 - 4 of 12 (33.33%) respondents stated they did not have access to PeopleSoft and/or KRONOS user manuals or reference materials within their department.

* Training records were not reviewed. The results are based on information provided by the surveys only.

Recommendation:

Management should establish a training program for HR Payroll and HRIS personnel that would help ensure professional training in PeopleSoft HR and KRONOS.

Management's Response:

HR Payroll and HRIS will begin hands-on training for staff the week of April 4, 2011. HR Payroll and HRIS supervisors and staff will dedicate a two hours per week in training. The purpose of this training is (1) to introduce PeopleBooks to the staff so they can use this as a resource for problem solving, (2) to have the HR users understand how the modules they deal with affect other PeopleSoft modules and (3) serve as a basis for training other City department personnel as HR continues to decentralize certain functions. Participants will be asked to bring work-related issues that will be used in the training. KRONOS training will also be conducted simultaneously so participants can have an understanding of the interaction between both systems. Staff will participate in the upcoming PeopleSoft fit-gap analysis. Also participating in this weekly training will be representatives from Risk Management, IT and Financial Services. Additional functional experts within the department will be identified during this training as well. HR payroll staff will consider changes in business processes identified and needed. Training records will be maintained.

The need for training funds for off-site training by vendors will be determined as the PeopleSoft implementation process continues and will be addressed, if needed, during the budget process.

**City of El Paso
Internal Audit Office
Human Resources Payroll Audit**

Responsible Party:

Norma Chavez, Human Resources Analyst

Implementation Date:

Week of April 4, 2011 and will be continuous through the PeopleSoft implementation.

**City of El Paso
Internal Audit Office
Human Resources Payroll Audit**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded work on the audit objectives of the Human Resources' Payroll Audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Human Resources Payroll Division met the objectives of this audit. The following is our conclusion.

1. The Human Resources Payroll Division and related controls within the City of El Paso's Human Resources Department is operating in a control conscious environment with the exception of the findings identified in this report.
2. The Human Resources Payroll Division's Procedures are meeting management's objectives in two of the following areas:
 - There is a proper system of segregation of duties within the payroll function.
 - There is a process for the classification of employees.
3. The Human Resources Payroll Division's Procedures are not meeting management's objectives in three of the following areas:
 - The payroll operations Policies and Procedures manuals require updating.
 - Weaknesses were identified regarding the processes related to AWP, FMLA, and Staffing Table Changes. The current process involves manual forms.
 - Weaknesses were also identified regarding personnel training.

The implementation of the recommendations provided in this Audit Report should assist the Human Resources Payroll Division in making improvements in the Payroll processes.

We wish to thank the management and staff of the Human Resources Payroll Division for their assistance and courtesies extended throughout this audit.

Signature on File
Edmundo S. Calderon, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File
Daryl Olson
Senior Auditor

Distribution:

Legislative Review Committee, Finance, Internal Audit, Engineering /CIP & Management Services
Joyce A. Wilson, City Manager
William F. Studer Jr., Deputy City Manager
Linda Ball Thomas, Human Resources Director
Irene Y. Morales, Risk Manager