

**OFFICE OF THE CITY CONTROLLER**



**PUBLIC WORKS AND ENGINEERING DEPARTMENT  
PAYROLL POLICIES AND PROCEDURES AUDIT**

**Judy Gray Johnson, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

JUDY GRAY JOHNSON, CPA

October 24, 2003

The Honorable Lee P. Brown, Mayor  
City of Houston, Texas

**SUBJECT: Public Works and Engineering Department-Payroll Policies and Procedures Audit  
(Report No. 03-21)**

Dear Mayor Brown:

In accordance with the City's contract with Mir•Fox & Rodriguez, P.C. (MFRPC), MFRPC has completed an audit of the Public Works and Engineering Department's (PW&E) Payroll Policies and Procedures. The primary purpose of the engagement was to assess the policies and procedures for administering and documenting payroll while focusing primarily on overtime and compensatory time.

The auditors concluded that PW&E has adequate internal control systems pertaining to overtime and compensatory time and PW&E was in compliance with the applicable federal, state and local laws, except for the findings noted in the report. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible department officials as to action taken or being taken are appended to the report as Exhibit I.

In the report, MFRPC recommended transferring the payroll timesheet data entry function from the PW&E Payroll Group to the timekeepers within the divisions/branches to reduce error corrections and overtime. In response to MFRPC's recommendation, PW&E officials noted that the Finance and Administration Department (F&A) is now responsible for PW&E's timesheet data entry. As a result, we now recommend that F&A consider transferring timesheet data entry to the PW&E's division/branch timekeepers.

We appreciate the cooperation extended to the MFRPC auditors by department personnel during the course of the engagement.

Respectfully submitted,

Judy Gray Johnson  
City Controller

xc: City Council Members  
Sara Culbreth, Acting Chief Administrative Officer  
Stephen Tinnermon, Chief of Staff, Mayor's Office  
Jon C. Vanden Bosch, Director, Public Works and Engineering Department  
Philip Scheps, Ph.D., Director, Finance and Administration Department

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September 10, 2003

Honorable Judy Gray Johnson, City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, Texas 77002

Dear Controller Johnson:

In connection with the City-Wide Payroll Policies and Procedures Audit, Mir•Fox & Rodriguez, P.C. (MFRPC) has completed the audit of overtime and compensatory time pertaining to the City of Houston's (the City's) Public Works & Engineering Department (PW&E). During fiscal year 2002, the City paid approximately \$1.2 billion for its personnel services of which \$70 million related to overtime.

The purpose of our engagement was to determine if the City was in compliance with its policies and procedures, as well as, applicable Federal, state and local laws, pertaining to overtime and compensatory time. The objectives of our audit included the following:

- Determining whether City payroll policies and procedures adequately assured compliance with Federal, state and local laws.
- Determining whether City systems and internal controls implemented the policies and procedures and were adequate to assure that amounts calculated and paid were valid and appropriate.
- Determining that the time keeping system was effective, tracked accurately and compensated employees appropriately.
- Establishing that overtime and compensatory time were accurately computed, appropriately authorized and properly recorded and reported.
- Verifying that individuals receiving payroll checks and remittance advices were for authentic City employees.

The scope of the PW&E City-Wide Payroll Policies and Procedures Audit included assessing the policies and procedures for administering and documenting payroll for PW&E, for the audit period of July 1, 2001 to December 31, 2002 (the "scope period"). The authorization, recording and monitoring of overtime and compensatory time was decentralized throughout PW&E. As a result, MFRPC selected two of the divisions within PW&E for detailed testing. The two divisions selected were the Public Utilities Division and the Right of Way and Fleet Maintenance Division. MFRPC interviewed the timekeepers and documented the processes for the authorization, recording and utilization of overtime as well as compensatory time. MFRPC identified areas of high risk related to the overtime and compensatory time and evaluated the effectiveness of the applicable internal controls. MFRPC also selected a sample of payroll transactions with significant amounts of overtime paid and/or compensatory time earned during the scope period for detailed testing. In addition, MFRPC observed the May 9, 2003 payroll check distribution conducted by the Utilities Maintenance Branch of the Public Utilities Division.

Our procedures were performed through May 27, 2003 and have not been updated since then.

Based upon the results of our payroll review, PW&E has adequate systems of internal control pertaining to overtime and compensatory time and PW&E was in compliance with the applicable Federal, state and local laws, except for the significant findings noted below.

### **Significant Findings**

The significant findings, described in detail on the following pages of this report, are as follows:

- Timesheets were completed by both the supervisors within the branches and the timekeepers in some of the divisions within PW&E.
- Numerous corrections were made after the completion of the payroll processing because the departmental Payroll Group (Payroll) must receive the completed timesheets by mid-morning on Friday in order to meet the evening deadline for payroll processing.
- Documentation was inadequate to verify the transfer of payroll checks (checks) and direct deposit payment advices (advices) between the PW&E and its divisions/branches.

Honorable Judy G. Johnson, City Controller  
September 10, 2003  
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### Major Recommendations

PW&E should consider the following regarding its payroll timekeeping, check and advice distribution procedures:

- To reduce labor costs and increase the efficiency in timesheet preparation, only the supervisors or designated persons within the divisions/branches should manually complete the original timesheet.
- To reduce the number of corrections made by Payroll, timekeepers in the divisions/branches should be reviewing and entering their employees' time directly into the Advantage Human Resources System (AHRIS).
- Documentation should be prepared by Payroll for the transfer of checks and advices to each of the divisions/branches.

In general, the payroll timekeeping, check and advice distribution systems are labor intensive processes that should be reviewed by the City to determine if there are more efficient and cost effective methods with today's technological solutions. The City could for example use timesheet entry through the internet, continue promoting direct deposit and make the payroll advice available on the internet. The systems of internal control would also need to be modified to control the new technological environment.

Mir•Fox & Rodriguez, P.C. is pleased to have assisted you with this project and we appreciate the assistance and cooperation of the Public Works & Engineering Department, Controller's Office, Human Resources Department, Information and Technology Department and the Finance and Administration Department.

Very truly yours,

Mir•Fox & Rodriguez, P.C.



David Ahola

Principal, Internal Audit Services

DA/jh

**CITY OF HOUSTON**

**Payroll Policies and Procedures Audit - Public Works & Engineering Department**

**May 27, 2003**

CITY OF HOUSTON  
PAYROLL POLICIES AND PROCEDURES AUDIT - PUBLIC WORKS &  
ENGINEERING DEPARTMENT

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## Introduction

The City has approximately 22,000 employees. The City's employees are considered either salaried (exempt) or hourly (non-exempt). The City pays both exempt and non-exempt employees by exception reporting. Exception reporting consists of recording time not worked and time worked in excess of 40 hours. There are a small percentage of City employees who are required to record time worked on their timesheet. This reporting is referred to as positive reporting.

Timesheets are delivered to the City departments weekly by City messengers. The departments complete the timesheets for their employees and enter the time from the timesheets into AHRs. The payroll is processed through AHRs and the checks and advices are manually delivered to the employees biweekly.

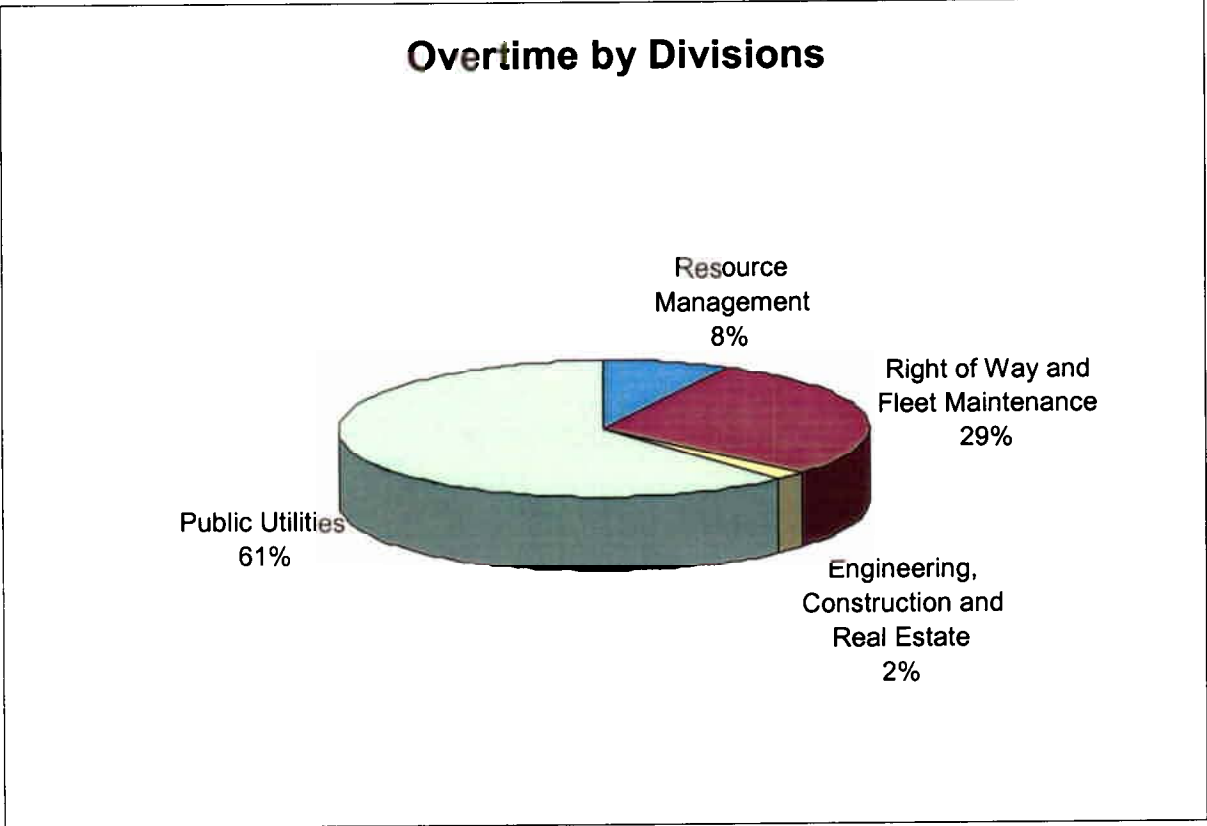
In order for employees to earn overtime or compensatory time, they must have their overtime approved by their supervisor and scheduled in advance on the Overtime Advance Approval Form. If a situation arises where the employee has to perform unscheduled overtime, the employee must notify his or her supervisor as soon as they have knowledge of the situation. This overtime is considered emergency overtime. In some divisions, employees have the option of receiving compensation for overtime hours worked as overtime pay or compensatory time (time-off). Exempt employees are usually excluded from earning overtime pay, except in specific instances which are outlined in City Ordinance section 14-168. Once the time is worked, the supervisor has to approve an Overtime Approval Log (Log). The supervisor will note on the Log whether the employee will be compensated in overtime pay or compensatory time. The Log is also approved by the Deputy Assistant Director. The overtime is recorded on the employee's timesheet and inputted into AHRs within the payroll period the overtime was worked.

PW&E has approximately 3,300 employees in six divisions. Their payroll for June 1, 2001 through December 31, 2002 was approximately \$191 million. Overtime for the audit period June 1, 2001 through December 31, 2002 was approximately \$ 5.2 million.

Overtime costs for the 50 top earners of PW&E totaled \$1,007,945, with \$579,901 in Public Utilities Division (PUD), \$409,404 in Right of Way and Fleet Maintenance (ROW) and \$18,640 in Resource Management (RM). The amount of overtime earned per these 50 employees ranged from approximately \$13,900 to \$31,200 during the audit period. MFRPC met with the Deputy Assistant Directors to discuss the significant amount of overtime in their respective divisions. The Deputy Assistant Director for the Utilities Maintenance Branch stated that he has only two scheduled shifts: 7:30 AM to 3:30 PM and 12:00 PM to 8:00 PM; however, most of the time the branch is required to provide services 24-hours a day. In addition, the City has a hiring freeze so when employees leave, the only way to cover the work is by scheduling employees to work overtime. Compensatory time for the audit period was an insignificant amount for PW&E.



See pie chart below for allocation of overtime for the audit period among the PW&E divisions.



## **Responsibility for Completion of Original Timesheet Delegated to Designated Persons within the Branches**

### **Background**

Each of the six major divisions within PW&E is subdivided into branches. There may be several branches in one division. Under the present system, the blank standard timesheet forms are sent by the City's Central Payroll Department to the divisions/branches within PW&E. Under current policy the City does not require the standard hours worked to be recorded on the blank standard timesheet form; however the City does require that all of the overtime, compensatory time earned, time-off, vacation, sick leave, jury duty, etc. commonly known as exception time, be recorded on the blank standard timesheet form.

Within PW&E each branch has a timekeeper that is responsible for identifying and recording all of the exception time for their employees. In addition, the branches utilize different procedures to capture the exception time for their employees. Some of the timekeepers send or fax copies of the blank timesheet forms to the supervisors or designated persons within their branch. Other branches have developed their own in-house timesheet form that they distribute within their branch. The supervisors or designated persons within the branch complete a copy of the City's standard blank timesheet form or the branch's in-house timesheet form and return the completed forms with appropriate supporting documentation to the timekeepers within their branch. The timekeepers copy the exception time from the timesheet copy or in-house timesheet to the original blank timesheet form that was received from the City's Central Payroll Department. MFRPC did note that one of the branches distributed the original blank timesheet form to the designated person within the branch for completion.

All of the branches submit their completed timesheets to the Payroll for data entry into AHRS each Friday by 10 AM.

### **Finding and Recommendation**

#### Finding

During our detailed testing, we noted that the designated person within the branches was recording their exception time on either a photocopy of the City's standard blank timesheet form or a blank timesheet form that was designed by the branch. Upon receipt of the completed timesheet forms, timekeepers within the branches manually transferred the same exception time to the blank timesheet form that was provided by the City's Central Payroll Department.

Manually transferring data from one timesheet form to another timesheet form is inefficient and is not cost effective for the City. In addition, the risk to the City of having payroll related errors increases with the possibility of manually transposing data from one document to another.

### Recommendation

PW&E should implement revised policies and procedures that would require all personnel to record exception time in a consistent manner. Such procedures would include using the same timesheet form and elimination of duplicate time capturing efforts. The revised policies and procedures should include but not be limited to the following:

- Timekeepers within the divisions/branches distributing the original blank timesheet form provided by the City's Central Payroll Department to the designated person(s) within the branches for completion.
- Supervisors or designated persons within the branches completing the original blank timesheet form provided by the City's Central Payroll Department.
- Designated persons within the branches should continue submitting their completed timesheets and supporting documentation to the timekeepers.
- Timekeeper's focus should be on reviewing the completed timesheet forms and related supporting documentation for accuracy and completeness rather than transferring the data from one timesheet form to another.

## **Responsibility for Data Entry Delegated to the Timekeepers**

### **Background**

Currently, all data entry for PW&E's payroll is performed by Payroll. Payroll is composed of two payroll supervisors, seven senior clerks and a manager. Payroll is responsible for inputting exception time into AHRS for approximately 3,300 PW&E employees.

Each Friday, Payroll receives all of the exception time from the divisions/branches. The Friday before the pay week, Payroll has until that Friday evening to input all of their employees' time. Since the divisions/branches have to submit their timesheets to Payroll by 10 AM on Friday, any time reported after 10 AM has to be inputted on the following Monday as a correction.

### **Finding and Recommendation**

#### Finding

We noted that for the payroll period August 10, 2002 through August 23, 2002, Right-of-Way and Fleet Maintenance and Utilities Maintenance had 514 and 2,860 errors, respectively that had to be corrected by Payroll in AHRS on the following Monday of the pay week. These errors primarily consisted of exception time taken by an employee after the Friday 10 AM deadline. In addition, based on our discussions with Payroll, they have often worked overtime to meet the Friday evening input deadline.

Also, the potential risks to the City of payroll related errors is heighten in an environment where staffing does not appear to be adequate to handle the workload.

#### Recommendation

PW&E should consider transferring the payroll timesheet data entry function from Payroll to the timekeepers within the divisions/branches depending on their size and functional dynamics. Policies and procedures should be developed which transfer the responsibility and accountability for accurately capturing and reporting time to the divisions/branches. The role of Payroll should be changed to provide oversight and facilitation to the payroll process. The procedures should include but not be limited to the following:

- Timekeepers should continue to be responsible for verifying the accuracy and completeness of the timesheets.
- Timekeepers should be given the responsibility for inputting the exception time data into the AHRS System on a daily or weekly basis, depending upon the amount of data input.

- Timekeepers should also be given the responsibility for reviewing and clearing rejections from AHRS after the payroll is processed by the system.
- Supervisors should receive payroll related reports for their areas for review and analysis.
- Payroll should be reviewing bi-weekly payroll exceptions for overall issues.
- Payroll should perform more analysis as well as periodic audits of the divisions'/branches' payroll.

The City may consider performing a study to identify a more efficient cost effective solution to entering and reviewing exception time. For example, the City may consider eliminating the paper timesheets and using a technological based solution such as letting the employee submit their time through the internet. The current systems of internal control would have to be modified for the new process.

## **Accountability for Checks and Advices Transferred to the Divisions/Branches**

### **Background**

Currently, the payroll check and direct deposit payment advice (advice) distribution process begins by a PW&E messenger picking up all of the payroll checks and advices for PW&E from the Financial and Technical Services Division of the Controller's Office at City Hall. The PW&E messenger arrives around 3 PM on Thursday at the Controller's Office and signs for receipt of PW&E's payroll checks and advices. The PW&E messenger delivers the payroll checks and advices to Payroll within PW&E who separates them by division/branches. The payroll checks and advices are delivered to the respective divisions/branches who in turn sort them by foreman, crew, work location, etc. The checks and advices are distributed to the employees on Thursday (3<sup>rd</sup> Shift crews) and Friday.

We selected the Utilities Maintenance Branch (UM) of the Public Utilities Division for observation of their physical distribution of the payroll checks and advices. UM has approximately 600 employees. Checks and advices are distributed to six locations throughout Houston. We observed 344 employees at four locations receiving their checks/advices. We verified the employees' identification and witnessed them signing for receipt of their payroll checks or advices.

### **Finding and Recommendation**

#### **Finding**

During the check distribution review, MFRPC observed that PW&E did not require the divisions to properly account for and then assume responsibility for the physical payroll checks and advices. Since there is no documentation supporting the transfer of the asset between the department and the divisions, there is a potential risk to the City that a payroll check or advice could be lost, misplaced, or stolen and PW&E would be unable to detect it. Basic accounting principles dictate that whenever accountability for cash or cash like items is transferred from one person to another, the asset must be clearly identified, accountability determined and receipted.

During our pre-exit meeting with PW&E for this audit, management stated that they did not have enough time to properly account for the checks and advices as well as get them delivered to the distribution sites before the end of the workday. Management stated that in order to properly account for and transfer the payroll checks and advices to the divisions their employees would have to work overtime.

## Recommendation

PW&E should meet with the Financial and Technical Services Division of the Controller's Office to discuss the possibility of receiving their checks earlier than 3 PM on Thursday so they would have adequate time within normal working hours to properly account for all payroll checks and advices. In addition, a log should be prepared for the divisions to sign for the receipt of the checks and advices. In addition, PW&E should design a form and develop procedures that will adequately record the transfer of responsibility/accountability for the checks and advices to the divisions when they are picked up for distribution.

Since the distribution of payroll checks and advices requires a considerable amount of physical labor and related delivery costs, the City should consider alternate methods to the processing and distribution of payroll checks and advices. For example with today's technological solutions the City could continue promoting direct deposit and make the corresponding payroll advices available on the internet. Such a solution would allow the City employees to continue to be productive in their jobs without any interruption.

# EXHIBIT I



## CITY OF HOUSTON

Public Works and Engineering  
Department

## Interoffice

Correspondence

**To:** Judy Gray Johnson  
Office of the City Controller

**From:** Jon C. Vanden Bosch, P.E., Director  
Public Works & Engineering Department

**Date:** September 24, 2003

**Subject:** **MANAGEMENT RESPONSE TO CITY-WIDE  
PAYROLL POLICIES AND PROCEDURES  
AUDIT - PUBLIC WORKS AND ENGINEERING  
DEPARTMENT**

We have completed our response to your draft internal audit report regarding your financial related City-Wide Payroll Policies and Procedures audit in Public Works and Engineering Department (PW&E). We appreciate the following recommendations made by your auditors.

### **Responsibility for Completion of Original Timesheet Delegated to Designated Persons within the Branches**

**Recommendation:** PW&E should implement revised policies and procedures that would require all personnel to record exception time in a consistent manner. Such procedures would include using the same timesheet form and elimination of duplicate time capturing efforts.

**Response:** The Department agrees with this recommendation. The reduction in the number of persons, forms and multiple entries should significantly reduce errors and streamline the process.

### **Responsibility for Data Entry Delegated to the Timekeepers**

**Recommendation:** PW&E should consider transferring the payroll timesheet data entry function from Payroll to the timekeepers within the division/branches depending on their size and functional dynamics.

**Response:** The payroll process at the central entry level is no longer located in PW&E. That group has been transferred to the Finance and Administration Department at the instruction of the Chief Administrative Officer of the City of Houston.

**Views of Responsible  
Officials**



# EXHIBIT I

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MANAGEMENT RESPONSE TO CITY-WIDE PAYROLL  
POLICIES AND PROCEDURES AUDIT - PUBLIC  
WORKS AND ENGINEERING DEPARTMENT

▪ **Accountability for Checks and Advices Transferred to the Divisions/Branches**

**Recommendation:** PW&E should meet with the Treasury Division of the Controller's Office to discuss the possibility of receiving their checks earlier than 3 PM on Thursday so they would have adequate time within normal working hours to properly account for all payroll checks and advices.

**Response:** The 3:00 P.M. paycheck distribution time is for all COH departments, not just PW&E. The Controller's Office determines the distribution time. Additionally, the staff that picks up and distributes the paychecks now reports to Finance and Administration Department.

If you have any further questions, please contact Waynette Chan at (713) 837-0249 or Godwin Okoro at (713) 837-0347.



Jon C. Vanden Bosch

JV:ra

cc: Steve Schoonover  
Ken Teer  
Bob Bowers  
Susan Bandy  
George Bravenec  
Gilbert Garcia  
Waynette Chan

**Views of Responsible  
Officials**