

OFFICE OF THE CITY CONTROLLER



SOLID WASTE MANAGEMENT DEPARTMENT

**PAYROLL POLICIES AND PROCEDURES
COMPLIANCE AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

January 24, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Solid Waste Management Department
Payroll Policies and Procedures Compliance Audit (Report No. 04-26)

Dear Mayor White:

In accordance with the City's contract with Mir Fox & Rodriguez, P.C. (MFR), MFR has completed a Payroll Policies and Procedures Compliance Audit at the Solid Waste Management Department that focused on overtime and compensatory time. The primary objective of the engagement was to determine whether accounting procedures and internal controls provided management with reasonable assurance that overtime and compensatory time were being accurately computed, properly recorded and supported in compliance with management's authorization, and the City's policies and procedures.

The report, attached for your review, noted that internal controls, policies, and procedures pertaining to overtime were adequate to provide reasonable assurance that compensatory time and overtime were being accurately computed, properly recorded and supported. However, the auditors noted that internal controls could be strengthened by improving the process for scheduling, recording and calculating overtime. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to the MFR auditors by department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Thomas Buchanan, Director, Solid Waste Management Department
Judy Gray Johnson, Director, Finance and Administration Department

October 11, 2004

Honorable Annise D. Parker, City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Controller Parker:

In connection with various City of Houston's (the City's) Payroll Policies and Procedures Audits, Mir-Fox & Rodriguez, P.C. (MFRPC) has completed the audit of overtime and compensatory time pertaining to the City's Solid Waste Management Department (Solid Waste). During January through December 2003, Solid Waste paid approximately \$24.9 million for its personnel services of which \$1.8 million related to overtime.

The purpose of our engagement was to determine if Solid Waste was in compliance with its payroll policies and procedures. MFRPC focused primarily on overtime and compensatory time. The objectives of our audit included the following:

- Determined whether accounting procedures and internal controls provided management with reasonable assurance that compensatory time and overtime were being accurately computed, properly recorded, and supported in compliance with management's authorization, and City policies and procedures.
- Determined the adequacy of the payroll policies, procedures and internal controls used by Solid Waste to ensure that the City properly and effectively authorized, tracked, compensated employees for, and reported compensatory time and overtime.
- Verified that individuals receiving payroll checks and remittance advices were authentic City employees by conducting unannounced payroll verifications on certain department divisions.
- Determined whether City payroll policies and procedures adequately assured compliance with federal, state and local laws.

The scope of the Solid Waste payroll policies and procedures audit included the assessment of the policies and procedures for administering and documenting payroll pertaining to Solid Waste, during the audit period of January 1, 2003 through December 31, 2003 (the scope period).

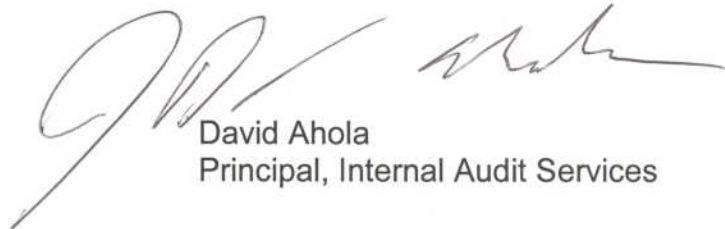


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Mir•Fox & Rodriquez, P.C. is pleased to have assisted you with this project and we appreciate the assistance and cooperation of the Controller's Office, Human Resources Department, Information and Technology Department, the Finance and Administration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

Very truly yours,

Mir•Fox & Rodriquez, P.C.

A handwritten signature in black ink, appearing to read 'DA', is written over the typed name and title of David Ahola.

David Ahola
Principal, Internal Audit Services

DA/ea

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MFRPC interviewed the supervisors and timekeepers, and documented the processes for authorization, recording and utilization of overtime and compensatory time. According to Solid Waste management payroll personnel, compensatory time is applicable to the Solid Waste non-exempt employees. MFRPC identified areas of risk related to the overtime and evaluated the effectiveness of the applicable internal controls.

For the purpose of our audit, MFRPC selected a sample of 35 employees assigned to the following seven divisions for a detailed review of overtime:

- Office of Director,
- Northeast Collection,
- Northwest Collection,
- Southeast Collection,
- Maintenance Operations,
- Recycling Operations, and
- Neighborhood Depositories

The overtime paid to the selected employees during the scope period totaled 15,832 hours or \$378,000, which represented approximately 21% of the total overtime paid. MFRPC performed detailed tests of the overtime for the sample mentioned above. Also, we observed the June 4, 2004 payroll check (check) and direct deposit payment advice (advice) distribution process.

Our procedures were performed through June 18, 2004, and have not been updated since then.

Based upon the results of our review, Solid Waste was in compliance with the applicable federal, state and local laws. The internal controls and accounting procedures pertaining to overtime were adequate to provide reasonable assurance that compensatory time and overtime were being accurately computed, properly recorded and supported. Additionally we determined based on our testwork that checks and remittance advices were being provided to authentic City employees. However, internal controls could be strengthened by improving the process for scheduling, recording and calculating overtime.

In general, the check and advice distribution system is a labor intensive process that is currently under review by the City Controller to determine if there are more efficient and cost effective methods with today's technological solutions. Solid Waste has approximately 30% of its employees on direct payroll deposit. Solid Waste should continue encouraging its workers to have their paychecks directly deposited.

CITY OF HOUSTON

Payroll Policies and Procedures Audit – Solid Waste Management Department

June 18, 2004

Introduction

Solid Waste has approximately 520 employees that 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.

Solid Waste uses the Advantage Human Resources System (AHRIS) for processing the payroll, and non-exempt employees record their hours on the Pay Clock 2000 that is supplied by the Lathem System Corporation. The City's Finance and Administration department manually enters the time into AHRIS. The corresponding biweekly checks and advices are manually delivered to the employees.

Exempt employees are usually excluded from earning overtime pay, except in specific instances which are outlined in City Ordinance section 14-168.

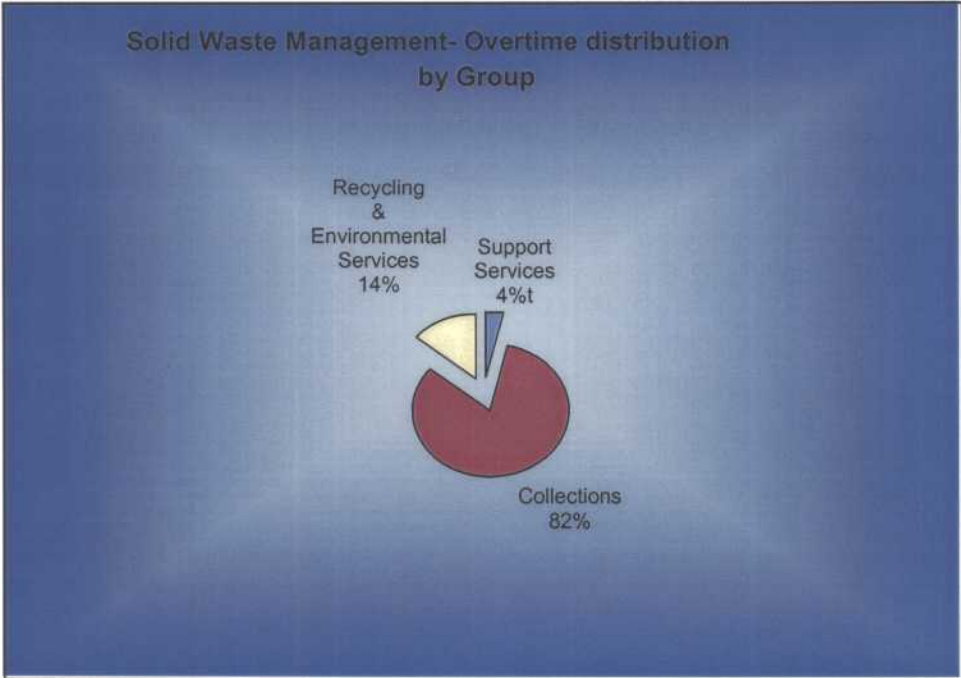
Solid Waste's personnel are segregated into the following groups:

- Office of Director,
- Support Services,
- Collections, and
- Recycling and Environmental Services.

The following illustrates the size of each group:



The overtime incurred during the scope period was as follows:



I. Time actually worked or actual work

Background

The City Ordinance section 14-168(a)(8) specifies that "Time actually worked or actual work is the one where the employee is actually on duty or on a council declared holiday, on authorized sick leave, vacation leave, and compensatory time off, death in the family leave or any authorized leave."

Finding and Recommendation

Finding

We noted that the timekeepers were not consistent in recording the start time of certain employee's shifts. For example, an employee is scheduled to begin work at 8:00 A.M. The worker arrives at 7:45, clocks in, gets ready for work and then begins work promptly at 8:00 A.M. Certain timekeepers may record the start time as 7:45 A.M., and others record the start time as 8:00 A.M. We noted that for 15 of the 35 timecards reviewed employees were automatically paid overtime if they clocked-in early. The City is at risk of paying additional overtime as a result of the inconsistency in recording the start time.

Recommendation

Solid Waste Management Department should develop a procedure establishing the beginning of the scheduled shift as the beginning of paid time and the end of the shift as the end of paid time unless approved in writing by the supervisor. To ensure consistency in the recording of time, timekeepers should be instructed to record the shift start and end times when the shift is scheduled to begin and end, unless otherwise directed.

II. Management of timekeeping system

Background

Solid Waste at its Southeast, Northwest & Northeast/Central locations has installed an advanced timekeeping system identified as Pay Clock 2000 distributed by Lathem Time Corporation, which is being used for recording the time worked.

The features of the system include:

- Automatic data collection in real time
- Secure data management
- Exception finder
- Multi-level labor tracking
- Benefit accrual tracking

Finding and Recommendation

Finding

We noted during our visits to the Solid Waste locations (Northeast, Northwest and Southeast) that the programming of the Pay Clock 2000 System, relating to the overtime calculations, was not consistent.

In addition, the primary use of the system was to capture the hours worked by the Solid Waste employees on their daily shifts. The Pay Clock 2000 System was not integrated into the City's AHRS.

Recommendation

We recommend that Solid Waste standardize the programming of the Pay Clock 2000 System in all of their locations as soon as possible. In addition, Solid Waste should consider transferring the data recorded in Pay Clock 2000 System to the City's AHRS. However, we understand that the City is currently considering the implementation of a new payroll accounting system in the near future. As a result, Solid Waste may consider deferring any programming changes related to AHRS until the new payroll accounting system is implemented. An electronic transferring of data would reduce labor costs and minimize the risk of clerical errors from manually transferred data.

III. Inadequate supervisory review

Background

Under the current process, timekeepers responsibilities at Solid Waste include the recording of exceptions such as; sick time, overtime and vacation as well as the calculation of overtime.

Finding and Recommendation

Finding

During our visits to three Solid Waste field offices, we noted the following related to the assignment of responsibilities and supervision of work:

- A) Timekeepers recorded their own personal time exceptions such as sick time, overtime, vacations and computed their own overtime. There was no evidence that their supervisor had reviewed the time entries.
- B) The calculated overtime was transcribed onto the City's timesheets by the field timekeeper, and then imputed into the AHRIS payroll system by the payroll clerks at the Finance and Administration Department's business office. The timesheets were not reviewed for accuracy or completeness by the timekeepers' direct supervisors.
- C) On occasion, timekeepers manually recorded in the Pay Clock 2000 System the starting or ending shift hours of those workers who had forgotten to use their time cards. However, there was no evidence the entries had been approved by the respective supervisor.

Recommendation:

In order to improve the integrity and accuracy of the payroll data, Solid Waste should review its policies and procedures applicable to timekeepers and payroll clerks to ensure that the timekeeping entries made by them are reviewed and approved in writing by a supervisor.

IV. Scheduling of overtime

Background

City Ordinance on its Section 14-168(c)&(d) specifies that the department head, shall verify that the overtime is needed to complete a required city service or operation and a department head, or designated subordinate may require an employee to work on a holiday.

Finding and Recommendation

Finding

Based on interviews with management at three locations, it is our understanding that whenever employees needed to work there was no process for scheduling and approving overtime in advance.

Recommendation

We recommend that Solid Waste develop a procedure to ensure that it is in compliance with City Ordinance Section 14-168(c)&(d). In addition, we recommend that Solid Waste institute a management review to assess if savings could be achieved by alternative scheduling arrangement.

EXHIBIT I



CITY OF HOUSTON

Solid Waste Management
Department

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: Solid Waste Management Department

Date: January 10, 2005

Subject: Payroll Audit

Thank you for the opportunity to respond to the findings from the internal audit of payroll policies and procedures conducted by Mir, Fox and Rodriguez. This memo supercedes my response of November 1, 2004.

We have the following comments:

1. Time actually worked or actual work: Agree with the finding and recommendation. Timekeepers have received appropriate guidance to insure that no employee accrues pay prior to the start of the "official" workday.
2. Management and timekeeping system: Agree with the finding. Insofar as the same vendor supplied all time clocks and associated program, we were astonished to learn that program calculations were not the same in all installations.
3. Inadequate supervisory review: Agree with the finding. We have already taken steps to insure more careful review of exceptions reported for timekeepers. Facility managers approve the reporting of exceptions, and of all time reported for employees who do not "clock" in or out.
4. Scheduling of overtime: We disagree that the Ordinance citation requires the director approve overtime in advance of overtime work. The nature of our work is such that on any given day more, or less, time may be required to collect from a given route; depending entirely on what our customers place for collection. It is not practical and may not even be possible to comply with the audit recommendation. In fact, our collection crews are required to work until the route is completed. In essence, overtime is approved whenever a route cannot be collected on straight time.

*Views of Responsible
Officials*

Please let me know if there is anything else you need from the Solid Waste Management Department

Handwritten signature of Thomas M. Buchanan in cursive.

Thomas M. Buchanan
Director

TMB/b