



Internal Audit Service Center



**Memphis Animal Services (MAS)
Payroll Audit
Executive Division
June 28, 2017**



TABLE OF CONTENTS

Cover Letter	Page 1
Background	Page 4
Objectives, Findings & Recommendations	
Objective/Finding 1	Page 5
Objective/Finding 2	Page 8
Objective/Finding 3	Page 11
Objective/Finding 4	Page 14
Appendix I – Response from Memphis Animal Shelter Administrator..	Page 15
Appendix II – Response from Chief Human Resources Officer	Page 16

INTERNAL AUDIT TEAM

CITY AUDITOR

Debbie Banks, CFE, CICA, CMFO

AUDIT TEAM

Catrina McCollum, Project Manager, CFE, CICA, CMFO

Danielle Davis, Audit Clerk

Joyce Crutcher, Administrative Support

Credential Key:

ACRONYM	DESIGNATION
CFE	Certified Fraud Examiner
CICA	Certified Internal Controls Auditor
CMFO	Certified Municipal Financial Officer

This page left blank intentionally.



JIM STRICKLAND
MAYOR
EXECUTIVE DIVISION

June 28, 2017

Mr. Doug McGowen
Chief Operating Officer
City of Memphis
125 N. Main, Suite 308
Memphis, TN 38103

Ms. Alex Smith
Chief Human Resources Officer
City of Memphis
125 N. Main, Suite 406
Memphis, TN 38103

Chiefs McGowen and Smith:

We have completed our examination of the Memphis Animal Services (MAS) payroll process. This engagement was delayed on several occasions due to the reassignment of our audit resources to other higher priority projects. Nonetheless, we appreciate the patience and understanding extended to us by you, the management, and staff of MAS.

The primary objective of this examination was to determine whether the occurrences of payment errors to a potential MAS new hire was an isolated or systemic incident related to human error or fraud. Our secondary objectives were to: determine the validity of payroll transactions; evaluate payroll process effectiveness and efficiency; and evaluate compliance with governing laws, regulations, policies and procedures. To accomplish our objectives, we interviewed pertinent management and staff to gain an understanding of the MAS payroll process. We obtained and reviewed payroll documentation, and tested Oracle payroll transactional data for the period January 1, 2015 to January 31, 2016. Using a risk based approach, we expanded the scope of our transaction testing to include select fraud and data analytics procedures for payroll records (e.g., payroll activity reports, Alpha Listing reports, etc.) for the period January 31, 2016 to December 30, 2016.

We concluded that the payment errors were isolated to the scheduled new hire and was not the result of fraud. The paychecks were processed systematically in accordance with the City's exception based payroll process. Further, we concluded that internal controls over the MAS payroll process need improvement to ensure payroll transactions are valid, accurate, and properly authorized. The process did not include

City of Memphis – Internal Audit
Executive Division
MAS Payroll Audit
June 28, 2017

control activities pertaining to validation and review of payroll activity to ensure the payroll data was accurate and valid. Additionally, we noted payroll discrepancies and process weaknesses that significantly impact the overall effectiveness and efficiency of the payroll process.

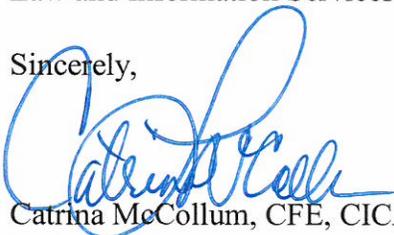
We also concluded that controls were adequate to ensure compliance with applicable laws, regulations, policies and procedures. Overall, our testing of significant payroll criteria did not reveal any material instances of noncompliance. However, we identified some opportunities for improvement. The following pages provide the details of our findings and recommendations, which should assist management with conducting a more effective and efficient operation.

We conducted this examination 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. Our audit may not necessarily disclose all weaknesses related to the MAS payroll process.

Our audit process provides management with the option to submit a written response to the draft report for inclusion in the final report; or to submit a written response within thirty (30) days after issuance of the final report. We presented you with the draft report dated May 10, 2017. Management's written response to the draft appears in full text in the appendix of this report. We will evaluate the response and the adequacy of corrective action during a follow-up review.

We appreciate the cooperation of the management and staff of MAS, Finance, Human Resources (HR), Law and Information Services during our audit. If we can be of further assistance, please advise.

Sincerely,



Catrina McCollum, CFE, CICA, CMFO
Project Manager

APPROVED:



Debbie Banks, CFE, CICA, CMFO
City Auditor

c: Jim Strickland, Mayor
Brian Collins, Chief Financial Officer
Bruce McMullen, Chief Legal Officer
Patrice Thomas, Deputy Chief Operating Officer

City of Memphis – Internal Audit
Executive Division
MAS Payroll Audit
June 28, 2017

Jill Madajczyk, Deputy Chief Human Resources Officer
Michael Fletcher, Deputy Chief Legal Officer
Brent Nair, Director and Chief Information Officer, Information Services
Margaret Coleman, Deputy Finance Director, Financial Management
Shirley Ford, City Comptroller, Finance Division
Chandell Carr, Manager, Equity, Diversity and Inclusion, Human Resources Division
Alexis Pugh, Administrator, Memphis Animal Services

BACKGROUND

The background information provides relevant and pertinent information to assist the reader with gaining a reasonable understanding of the activity under review. Additionally, the information helps to provide the reader with the best possible context for which to understand the nature of audit findings, observations, and recommendations.

The Memphis Animal Services (MAS) is responsible for enforcing City ordinances and State laws relating to animal care and control. As of January 26, 2016, the MAS workforce consisted of 72 employees. Approximately 53% of the workforce (38 employees) consisted of bargaining-union employees (Animal Care Technicians (ACT), Animal Control Officers (ACO) and General Clerks). The remaining 34 employees consisted of part-time ACTs, managerial and veterinary personnel.

The Memoranda of Understanding (MOU) applicable to each bargaining union, Fair Labor Standards Act (FLSA), and various City policies (Finance Policy and Procedures Manual, Chapter 5) provide guidance for the payroll process. For purposes of tracking employee time and attendance, MAS uses Time Guardian, an electronic timekeeping system. With the exception of management, all employees are expected to use the time clock to record their work hours.

The Administrative Supervisor is responsible for performing the payroll function. At the end of each pay period, the time cards obtained from Time Guardian along with supporting documentation (e.g., overtime approval forms, leave forms, etc.) is recorded by the MAS supervisors on excel spreadsheets developed for and used specifically by MAS management to track time and attendance for all MAS employees. Upon completion, each supervisor provides the excel spreadsheets and supporting documentation to the Administrative Supervisor for input into the City's Payroll system, Oracle Time and Labor (OTL) Super Timekeeper. After submission in OTL Super Timekeeper, the excel spreadsheets and supporting documentation is submitted to the MAS Administrator for review and approval signature.

OTL Super Timekeeper is based upon the payroll-by-exception model where permanent employees are automatically paid for 80 regular hours. Regular work time (80 hours) is not assigned a payroll element unless it is for a temporary employee (Time Entry Wages). In order to record excess earnings for permanent employees and all hours worked by temporary employees, all leave with pay, additional pay and distribution of pay (i.e. vacation, sick, bonus, etc.) is assigned a payroll element that when input in Oracle, generates pay for elements entered.

NOTE: MAS transitioned from Parks and Neighborhoods to the Executive Division as of July 1, 2016. A new MAS administrator was appointed in June 2016.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1:

To determine whether payment errors were an isolated or systemic incident related to human error or fraud.

FINDING 1:

Payment errors were isolated to a scheduled new hire and were not the result of fraud.

We interviewed pertinent personnel and reviewed relevant City policies and procedures to obtain an understanding of the payroll process. Based upon our understanding, we prepared flowcharts of the significant payroll processes (e.g., request to fill a vacancy, hiring, termination, etc.) for purposes of identifying any internal control weaknesses that may have contributed to the payroll incident that was revealed on January 22, 2016. The incident involved a former MAS applicant who was selected on June 29, 2015 to fill a vacancy for a full-time Animal Care Technician (ACT).

We analyzed MAS payroll transactional data to specifically identify any “zombie” or inactive employees as well as “ghost “ or fictitious employees like the former MAS applicant. Our analysis also included testing for duplicate payments and other indications of unusual or questionable activity. We noted the following:

- As the selected candidate, the individual was added to the MAS payroll by HR/Data Compensation in accordance with the City’s hiring process. However, the employee never reported to MAS for work. Additionally, MAS management did not submit a *Separation from Payroll* form to HR to have the individual removed from the payroll.
- Because the individual remained on the MAS payroll, the individual was recorded on pertinent City payroll records (e.g., Alpha Listing, Oracle Payroll Timesheet, Oracle Payroll Activity Report, etc.) as a permanent employee.
 - We found no evidence that MAS management utilized pertinent City payroll records to verify the accuracy of the information contained in the reports.
- The City’s exception based payroll process allowed the individual to systematically receive paychecks totaling \$14,923.01, despite having never worked for MAS since regular hours worked (80 hours) do not require a payroll element to be input in Oracle.
 - The payment errors went undetected largely due to process weaknesses related to final review and validation of Oracle payroll entries. We found no evidence that payroll information obtained from MAS payroll records were compared to Oracle Time Entry Validation Reports to ensure accuracy of payroll entries and to aid in the detection of errors and irregularities.
- Payroll records used primarily by MAS for recording time and attendance (excel spreadsheets, work schedules), did not contain the name of the individual that received the payment errors. We were

FINDINGS AND RECOMMENDATIONS

unable to confirm whether the individual had been added to the Time Guardian database since the system experienced two major data loss incidents during the review period. Data backups were not available to recover the data loss that occurred. Therefore, we did not rely on any time card data for our testing purposes.

- Based on documentation reviewed, the MAS excel spreadsheets instead of the Oracle Time Entry Validation report or Oracle Payroll Timesheet served as the source document to validate payroll activity. The spreadsheets contained the approval signature of the former MAS Administrator.
- Our data analytics did not reveal any other instances of payments to “ghost” or “zombie” employees. We also found no instances of duplicate payments or any unusual or questionable payment activity indicative of fraud.
- Information pertaining to the payment error was referred to the Law Division to pursue collection. As of April 17, 2017, the City had not received reimbursement from the individual.

RECOMMENDATION(S):

MAS management should contact the City’s Payroll service center to seek training for all employees involved in the payroll process. Additionally, management should utilize pertinent payroll records including but not limited to the Oracle Payroll Activity, Oracle Validation, and Oracle Payroll Timesheet reports to verify accuracy of payroll information. The Oracle Payroll Timesheet should be used to record work hours, leave with pay, additional pay and distribution of pay for MAS employees.

Prior to final submission of payroll in Oracle, MAS management should compare the payroll entries recorded on the Oracle Time Entry Validation report to corresponding supporting documentation (overtime approvals, leave forms, etc.) to ensure payroll is properly approved and adequately supported. Additionally:

- MAS management should sign the Oracle Time Entry Validation report with the timecard status “working” to confirm approval of the recorded payroll entries.
- After approval, Oracle “working” timecard entries should be submitted and an Oracle Time Entry Validation report with the timecard status “submitted” should be provided to MAS management for final review and comparison to confirm that all authorized payroll entries were recorded.
- MAS management should also sign the Oracle Time Entry Validation report with the timecard status “submitted”. Both copies (“working” and “submitted”) should be retained with the payroll records.

FINDINGS AND RECOMMENDATIONS

AUDITOR'S OBSERVATION:

The risk for similar errors and/or irregularities to occur is significantly higher for divisions and/or service centers that do not utilize the City's payroll records to effectively monitor and process their payroll. In response to several known payroll incidents that occurred in the past, the City is transitioning to an electronic timekeeping system, NOVAtime, in an effort to mitigate payroll risks and to strengthen controls over time and attendance reporting. While implementation is currently underway, we plan to deploy our data analytics software (ACL) to assist with continuous monitoring of the high risk payroll elements on a City-wide basis.

We will continue to require City-wide Division management to provide evidence of monthly overtime monitoring to ensure proper approvals are obtained and the existence of adequate documentation to support overtime. We have also expanded the scope of our overtime monitoring to allow us to focus greater attention towards Divisions with significant overtime usage. We will provide the results of our monitoring activity to City-wide Division management to confirm whether controls in place are working or if additional process improvements are needed.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 2:

To determine the validity of payroll transactions.

FINDING 2:

The payroll process needs improvement to ensure payroll transactions are valid, accurate and properly approved.

We judgmentally selected a sample of eleven employees from six pay periods (66 payroll transactions) for the period January 1, 2015 to January 31, 2016 to tests their payroll entries for validity, accuracy, proper approvals, and the existence of supporting documentation. For three pay periods, we traced work hours and benefit leave recorded on the MAS excel spreadsheets to supporting documentation including but not limited to overtime approval, leave forms, and the payroll activity reports. We also vouched work hours and benefit leave recorded on the Oracle Payroll Activity Reports to supporting documentation for the remaining three pay periods.

Our payroll validity test results revealed no discrepancies for 59% of the payroll transactions reviewed. However, we noted various payroll discrepancies for the remaining 41%, as follows:

Hazard Pay Discrepancies

Full-time Animal Care Technicians and Animal Control Officers are eligible to receive an additional six percent hazard premium for all hours worked. Although the hazard premium is automatically calculated by Oracle, we noted the following discrepancies where the premium was not paid.

- For 26 employees, the “OT Flat Amount” payroll element was used to record pay for overtime hours worked in a prior pay period. However, the additional six percent was not included in the amount recorded as “OT Flat Amount”. Typically, the hazard premium is automatically calculated and added to employee pay when recorded in the pay period worked. As a result, hazard premium totaling \$967.18 is due to the eligible employees for the period January 1, 2015 to December 31, 2016, as noted in the following table.

Table 1 – Hazard Premium Due from OT Flat Amount

Description	OT Flat Amount Paid	6% Hazard Premium Due
2015	7,093.41	425.60
2016	9,026.26	541.58
TOTAL	16,119.67	967.18

NOTE: The scope of hazard premium transaction testing was expanded to December 31, 2016.

FINDINGS AND RECOMMENDATIONS

- We found that three eligible employees did not receive the hazard premium for any hours worked. As a result, additional pay totaling \$6,307.08 is due to the employees for the period January 1, 2015 to December 31, 2016, as noted in the following table.

Table 2 – Summary of Outstanding Hazard Premium

Description	Employee 1	Employee 2	Employee 3	Total
2015 Work Hour Total	18,102.78	0.00	19,224.96	37,327.74
2016 Work Hour Total	15,549.60	9,082.40	43,169.96	67,801.96
Grand Total	33,652.38	9,082.40	62,394.92	105,129.70
6% Hazard Premium Due	2,019.14	544.94	3,743.70	6,307.78

NOTE: Two of the individuals are no longer employed with the City.

Supporting Documentation Discrepancies

- We did not find leave forms to support paid benefit time (e.g., vacation, sick, etc.) for 19 payroll transactions.
- We noted 18 discrepancies for which work hours recorded on the support documentation (timesheet, overtime forms, etc.) did not match paid work hours reported on the Payroll Activity Report.

RECOMMENDATION(S):

MAS management should establish a process to ensure all MAS payroll transactions are valid, accurate and properly approved. The process should include, but not be limited to reviewing applicable payroll reports to ensure adequate support documentation is maintained, proper approvals are included on required documents (leave, overtime forms), mathematical accuracy where required, and to identify and investigate payroll errors and irregularities.

Effective immediately, MAS management should discontinue using the “OT Flat Amount” payroll element and seek guidance from the City’s Payroll service center regarding proper recording of overtime hours from prior pay periods and for training relative to proper usage of all Oracle payroll elements. MAS management should also seek guidance from HR to resolve the hazard premium discrepancies.

FINDINGS AND RECOMMENDATIONS

AUDITOR'S OBSERVATION:

During the course of the audit, the City's Payroll Supervisor discovered several payroll entries where part-time employees worked more than 40 hours a week, but did not receive overtime pay. MAS management was immediately notified, a meeting was held, and guidance was provided to MAS management for time entry and payroll validation procedures. Additionally, the Payroll Supervisor together with HR, performed preliminary procedures to identify the timeframe for which the unpaid overtime occurred. Subsequently, all discrepancies pertaining to unpaid overtime were resolved and all affected employees were paid. Our testing did not reveal any material discrepancies pertaining to unpaid overtime.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 3:

To evaluate controls to determine if MAS payroll is processed effectively and efficiently.

FINDING 3:

Controls need improvement to ensure effective and efficient payroll processing.

Effective controls over payroll include, but are not limited to: designation of personnel responsible for each part of the payroll process; adequate segregation of duties; supervisory approval of employee time and attendance records; restricted access to payroll applications and records; identification, analysis and management of potential risks, and periodic reviews to determine if controls are in place and working effectively. Based upon our evaluation of the MAS payroll process, we noted the following elements of effective controls:

- Responsibility for the payroll function was assigned to the Administrative Supervisor.
- Responsibilities for hiring and termination are separate from the preparation of payroll transactions and input of data. Hiring and termination is the responsibility of HR.
- The MAS payroll process includes supervisory review and approval of employee payroll records.
- Payroll records are maintained in a restricted area to prevent unauthorized access. Additionally, the Oracle payroll application is appropriately controlled by user access.

We noted the following weaknesses:

- Although we found sufficient evidence that MAS payroll records are properly reviewed and approved by MAS management, we noted a material weakness pertaining to the supervisory review process. Pertinent City payroll records and reports were not being reviewed or compared to MAS payroll records to aid in the timely detection and prevention of errors and irregularities, also noted in finding 1.
- We found no evidence that MAS management identified, analyzed and managed potential risks (risk assessment) related to MAS operations, specifically the payroll process (i.e., scheduled new hire, fraudulent payments, etc.). Payroll discrepancies noted in findings 1 and 2 are directly attributed to this internal control weakness.
- We found no written policies and procedures for monitoring MAS operations, specifically payroll activity to ensure controls are in place and working as intended. Payroll discrepancies noted in findings 1 and 2 are directly attributed to this internal control weakness.

FINDINGS AND RECOMMENDATIONS

- We found no written policies and procedures to provide guidance for employee usage of the MAS electronic time keeping system Time Guardian. Additionally:
 - There is only one active account in Time Guardian; the system administrator which is assigned to the Administrative Supervisor. The system administrator has the authority to make changes to the system and time and attendance data without additional management oversight. Additionally, having only one account increases the risk for errors and irregularities to occur undetected.
 - Time Guardian data is not being backed up to enable MAS to restore data in the event of a data loss, such as a hard drive crash. Ideally, data should be periodically backed up to an off-site location, such as the City's data center, to provide additional protection.
 - MAS management does not utilize any time and attendance reports or exception reports from Time Guardian to monitor system activity and to detect errors and irregularities.
 - Time cards used by MAS employees are not maintained with payroll records to provide support for hours worked.
 - The Time Guardian system includes a delete function which allows an employee and their time and attendance historical data to be removed without any evidence that they were ever included in the system. From our interviews with management, we found that terminated employees are deleted.

RECOMMENDATION(S):

- MAS management should review pertinent City payroll records (Oracle Time Entry Validation, Oracle Time Sheet, Oracle Payroll Activity reports) to ensure accuracy and validity of employee time and attendance reporting.
- MAS management should establish a process for identifying, analyzing and managing potential risks related to MAS operations, including but not limited to the payroll process (i.e., scheduled new hire, fraudulent payments, etc.). The risk assessment should be performed regularly.
- MAS management should develop written policies and procedures for monitoring MAS operations, specifically payroll activity pertaining to reconciliation and review of specific payroll records to ensure accuracy and validity of payroll. Periodically, MAS management should monitor the process to ensure controls are working and to identify and resolve any questionable or unauthorized payroll activity. Monitoring activity should be documented to show dates, activity reviewed, and monitoring results to provide evidence of monitoring.
- We are aware that the City is transitioning to an electronic timekeeping system (NOVAtime) to strengthen controls over time and attendance reporting. During the transition period, and until NOVAtime is fully deployed and operational, we recommend that you develop written procedures to

FINDINGS AND RECOMMENDATIONS

provide guidance for using Time Guardian. Additionally:

- Consider establishing another account in Time Guardian to provide monitoring/oversight over system data and to identify errors and irregularities.
- Obtain and review pertinent time and attendance reports from Time Guardian to assist with monitoring efforts and to aid in the detection and prevention of errors and irregularities.
- Ensure time cards are maintained with MAS payroll records to support payroll activity.
- Disable the delete function to ensure pertinent historical data is maintained. Terminated employees should be deactivated in the system to retain their historical data.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 4:

To evaluate compliance with governing laws, regulations, policies and procedures.

FINDING 4:

Internal controls were adequate to ensure compliance with applicable laws, regulations, policies and procedures. Auditors identified opportunities for improvement.

MAS management is responsible for implementing adequate controls to ensure that the payroll process complies with applicable laws, regulations, policies and procedures. We reviewed applicable guidance such as City Payroll Policies, City Personnel Policies, and the Animal Shelter MOU and identified 35 significant criteria for which we evaluated compliance. Overall, we noted satisfactory compliance with applicable laws, regulations, policies and procedures. However, we noted some opportunities for improvement.

- Timesheets for hourly employees did not contain their signatures to attest that the hours recorded were accurately reflected.
- Shift differential was paid for a shift (1pm to 9pm) that was not recognized in the terms of the MOU.
- Call back time is not specifically documented in the MAS payroll process or in Oracle, so it is difficult to determine when call back payment rules apply.

RECOMMENDATION(S)

MAS management should ensure compliance with applicable policies, procedures and guidance including but not limited to:

- Requiring hourly employees to sign their timesheets
- Shift differential
- Establishing procedures to adequately track call back

APPENDIX I

Response from Memphis Animal Shelter Administrator



Inter-Office Memorandum

Executive

To: Doug McGowen, Chief Operating Officer
Executive Division

From: Alexis Pugh, MAS Administrator

Date: June 28th, 2017

Subject: Final Response to Payroll Audit

Finding 1 Recommendations:

MAS management should contact the City's Payroll service center to seek training for all employees involved in the payroll process.

New training will be provided as part of the rollout of the Novatime system which we are scheduled to receive June.

Additionally, management should utilize pertinent payroll records including but not limited to the Oracle Payroll Activity, Oracle Validation, and Oracle Payroll Timesheet reports to verify accuracy of payroll information. The Oracle Payroll Timesheet should be used to record work hours, leave with pay, additional pay and distribution of pay for MAS employees.

MAS Management has implemented the use of the Oracle payroll timesheet since our initial meeting with the Internal Audit team on 02/07/17. Administrative Supervisor Pamela Carter, who processes payroll for MAS, has been printing and reviewing the Validation report once payroll status is changed to "approved" in Oracle since Spring 2016 when the audit process was initiated.

Prior to final submission of payroll in Oracle, MAS management should compare the payroll entries recorded on the Oracle Time Entry Validation report with the timecard status "working" to corresponding supporting documentation (overtime approvals, leave forms, etc.) to ensure payroll is properly approved and adequately supported.

See above. The validation report is being reviewed and compared with other records after status is "approved" rather than "working".

Additionally:

- MAS management should sign the Oracle Time Entry Validation report with the timecard status “working” to confirm approval of the recorded payroll entries.

Based on this audit report, we will begin this process until the Novatime process replaces it in June.

- After approval, Oracle “working” timecard entries should be submitted and an Oracle Time Entry Validation report with the timecard status “submitted” should be provided to MAS management for final review and comparison to confirm that all authorized payroll entries were recorded.

The validation report will now be given to the MAS Administrator for review, per this report, until the Novatime process replaces it in June.

- MAS management should also sign the Oracle Time Entry Validation report with the timecard status “submitted”. Both copies (“working” and “submitted”) should be retained with the payroll records.

The MAS Administrator will sign this report once reviewed.

Finding 2 Recommendations:

MAS management should establish a process to ensure all payroll transactions are valid, accurate and properly approved. The process should include, but not be limited to reviewing applicable payroll reports to ensure adequate support documentation is maintained, proper approvals are included on required documents (leave, overtime forms), mathematical accuracy where required, and to identify and investigate payroll errors and irregularities.

MAS Management has established a process internally to review applicable payroll reports to ensure adequate support documentation is maintained, proper approvals are included on required documents (leave, overtime forms), mathematical accuracy where required, and to identify and investigate payroll errors and irregularities.

Effective immediately, management should discontinue using the “OT Flat Amount” payroll element and seek guidance from the City’s Payroll service center regarding proper recording of overtime hours from prior pay periods and for training relative to proper usage of all Oracle payroll elements.

MAS Management has discontinued the use of the OT Flat Amount and has received guidance regarding proper recording of overtime hours from prior pay periods since our initial meeting with the Internal Audit team on 02/07/17.

MAS management should also seek guidance from HR to resolve the hazard premium discrepancies.

This issue has been corrected for current payroll processing, and back pay for the one active employee who was not receiving this pay is underway in partnership with Compensation.

Finding 3 Recommendations:

- MAS management should review pertinent City payroll records (Oracle Time Entry Validation, Oracle Time Sheet, Oracle Payroll Activity reports) to ensure accuracy and validity of employee time and attendance reporting.

MAS Management has implemented the use of the Oracle payroll timesheet since our initial meeting with the Internal Audit team on 02/07/17. Administrative Supervisor Pamela Carter, who processes payroll for MAS, has been printing and reviewing the Validation report once payroll status is changed to “approved” in Oracle since Spring 2016 when the audit process was initiated.

- MAS management should establish a process for identifying, analyzing and managing potential risks related to the payroll process (i.e., scheduled new hire, fraudulent payments, etc.). The risk assessment should be performed regularly.

MAS Management requests that this risk assessment process be generated by Human Resources rather than created at our service center level, since this process should be uniform across all city divisions.

- MAS management should develop written policies and procedures for monitoring payroll activity including but not limited to reconciliation and review of specific payroll records to ensure accuracy and validity of payroll. Periodically, MAS management should monitor the process to ensure controls are working and to identify and resolve any questionable or unauthorized payroll activity. Monitoring activity should be documented to show dates, activity reviewed, and monitoring results to provide evidence of monitoring.

MAS Management requests that this monitoring process be generated by Human Resources rather than created at our service center level, since this process should be uniform across all city divisions. We are currently providing monthly monitoring data of a sampling of employees who received overtime to the Internal Audit division.

- We are aware that the City is transitioning to an electronic timekeeping system (NOVAtime) to strengthen controls over time and attendance reporting. During the transition period, and until NOVAtime is fully deployed and operational, we recommend that you develop written procedures to provide guidance for using Time Guardian. Additionally:

MAS Management feels it is not the best use of its time or resources to write policy or procedures for a system that is about to be phased out.

- Consider establishing another account in Time Guardian to provide monitoring/oversight over system data and to identify errors and irregularities.

MAS Management consulted with the vendor and determined that this would require an additional expenditure for set-up that is not financially advisable considering the impending transition to Novatime.

- Obtain and review pertinent time and attendance reports from Time Guardian to assist with monitoring efforts and to aid in the detection and prevention of errors and irregularities.

ties.

This occurs each pay period and each supervisor uses this report to generate their payroll for that period.

- Ensure time cards are maintained with MAS payroll records to support payroll activity.

Supervisors are given this report after payroll is processed each period, employees are required to sign off that the hours are correct, and then this report is filed along with all other payroll documentation for that pay period.

- Disable the delete function to ensure pertinent historical data is maintained. Terminated employees should be deactivated in the system to retain their historical data.

MAS Management reached out to the vendor requesting information about implementing this change. Our contact has not called us back to provide an answer.

Finding 4 Recommendations:

MAS management should ensure compliance with applicable policies, procedures and guidance including but not limited to:

- Requiring hourly employees to sign their timesheets
MAS Management has required employees to verify and sign timesheets since our initial meeting with the Internal Audit team on 02/07/17.
- Shift differential
Pay of shift differential to employees for shifts starting prior to 3pm discontinued immediately after our initial meeting with the Internal Audit team on 02/07/17.
- Establishing procedures to adequately track call back time
During our initial meeting with the Internal Audit team on 02/07/17, MAS management was instructed to note that time was "call back time" in the comment field of the Oracle Payroll Activity report and began doing so immediately.

APPENDIX II

Response from Chief Human Resources Officer



JIM STRICKLAND
MAYOR

DIVISION OF HUMAN RESOURCES

TO: Debbie Banks, City Auditor
FROM: Alex Smith, Chief HR Officer
DATE : June 23, 2017
RE: Response Letter to Payroll Investigation

Debbie,

Thank you for your investigative work into the payroll matters at the Memphis Animal Shelter. Based on your report, HR will be taking the following actions to ensure proper legal and policy compliance with time and attendance monitoring across the City of Memphis.

Effective August 1, 2017, below are the HR Division's next steps:

1. Develop a clear payroll overtime audit procedure manual and training for City of Memphis - Owner: Chandell Carr
2. Audit overtime reports in Oracle EBS on a monthly basis - Owner: Jill Madajczyk

In addition, this year we are implementing a new automated time and attendance system called NovaTime across all City of Memphis divisions. This system will be fully implemented by December 31, 2017 and will enable us to move from a manual time and attendance process to an automated process.

Implementing NovaTime is an important step because it will allow management, HR and payroll within the City to monitor employee hours, ensure proper approvals for time, and easily create reports to ensure time and attendance accuracy and compliance in the future.

If you have any additional questions, please let me know.

Regards,

Alex Smith
Chief HR Officer
City of Memphis

