



**Office of Inspector General
City of New Orleans**

**Follow-up Report: The Payroll Internal Control Performance
Audit**

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**E.R. Quatrevaux
Inspector General**

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Follow-up #2	The City partially implemented this corrective action. The City added nine new positions to the Accounting Department in 2011; however, the prior year findings remained in the 2012 financial statement audit.
Follow-up #3	The City partially implemented this corrective action. The 2013 payroll cash accounts were reconciled; however, the auditors were unable to determine if the reconciliations were performed in a timely manner.
Follow-up #4	The City implemented this corrective action. The City's payroll clearing fund was reconciled in a timely manner.
Follow-up #5	The City implemented this corrective action. The City amended the budget eleven times during 2013 for personnel related expenditures.
Follow-up #6	The City implemented a modified corrective action. NOPD employees and supervisors reviewed and signed their time sheets as dictated in the TRIP policy. However, instead of updating CAO Policy Memorandum No. 72(R) to reflect NOPD's practice, NOPD issued General Order #936 on February 25, 2013 mandating that "all employees must sign time sheets unless on extended leave of five (5) or more days.

- Follow-up #7 The City did not implement this corrective action. Civil Service was still unable to obtain meaningful overtime reports without ITI's assistance. The City was unable to produce evidence to support its corrective action reminding departments to obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week. A total of 201 (4.7%) of the 4,310 City employees worked more than 416 hours of overtime in 2013.
- Follow-up #8 The City did not implement this corrective action. Two HRTS users continued to have the ability to perform all three levels of approval within their departments. The City was unable to provide evidence that additional monitoring over approvals was performed as indicated in its corrective action.
- Follow-up #9 The City implemented this corrective action. The City applied dual signatures prior to initiating a wire transfer.
- Follow-up #10 The City did not implement this corrective action. As of November 1, 2013, the City had 3 payroll checks, totaling \$2,695, which was not escheated to the state as required by Policy Memorandum No. 117.
- Follow-up #11 The City partially implemented this corrective action. The City kept the key to the signature stamp in a locked supply cabinet; however, an unauthorized individual had possession of the key.
- Follow-up #12 The City partially implemented this corrective action. On June 26, 2013, the City approved Policy Memorandum No. 127, a records retention policy for City agencies to follow for the preservation and the maintenance of records. However, the document management system was still unfunded.
- Follow-up #13 The City's corrective action was partially implemented. Policy 01-2011 documented the new procedures. However, the City stored the manual checks in an unlocked supply cabinet and an unauthorized individual was in possession of the key to the supply cabinet.

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- Follow-up #1 The observation was implemented. The City adopted an email notification plan to remind employees of the requirement to complete the annual ethics training course.

- Follow-up #2 The observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, Time/Attendance service to replace AHRS.

- Follow-up #3 The observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, Time/Attendance service to replace AHRS.

- Follow-up #4 The observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, Time/Attendance service to replace AHRS.

- Follow-up #5 The observation was not accepted by the City; therefore, follow-up testing was not performed.

- Follow-up #6 The corrective action was unable to be tested because the new payroll system, ADP, was not fully implemented at the time of the follow-up testing.

EXECUTIVE SUMMARY

In 2011 the Office of Inspector General (OIG) issued a report titled “The Payroll Internal Control Performance Audit” (2011 Report). The City of New Orleans (City) internal controls related to the payroll process and the adequacy of access controls for each software program used to process payroll were audited in the 2011 Report.

The 2011 Report documented 13 findings and 6 observations, and offered 19 corrective actions to the 19 recommendations. The City accepted all but one recommendation in its original response.

The Follow-up review found that the City implemented 3 recommendations, and partially implemented 6 recommendations. Three recommendations were not implemented and one recommendation could not be tested because the new ADP system was not fully implemented at the time of the follow-up review.

The City also accepted 5 recommendations related to observations. The Follow-up review found that 4 recommendations were implemented and the fifth could not be tested because the new ADP system was not fully implemented.

The original report found that “In 2009, 597 employees or 13% of the City’s 4,614 employees exceeded the maximum overtime limit of 416 hours per year...” The Follow-up review found that 201 of the City’s employees worked more than 416 hours of overtime in 2013.

The original report found that some employees had the ability to perform all three levels of approval within their departments, and the Follow-up review found that 2 employees retained that access.

The original report found 285 outstanding payroll checks that should have been remitted to the state, and the Follow-up review found 3 payroll checks that had not been remitted.

The City partially implemented 6 recommendations to which it had agreed. For example, the City had placed the signature stamp used for checks in a locked cabinet as recommended, but an unauthorized person had a key to the cabinet.

The City has clearly made progress in its payroll controls, but more work is necessary to fully correct the findings of the original report.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the follow-up report was to determine if the City implemented its responses (corrective actions) from the 2011 Report, and if the corrective actions were operating effectively.

The scope of this follow-up was limited to the City's responses to the thirteen findings, six observations and nineteen recommendations in the 2011 report. The scope period was October 1, 2013 to December 31, 2013.

The methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book)¹, and included the following:

- Interviewed City personnel to gain an understanding of current processes and controls in place;
- Questioned Civil Service about the current status of the 2011 Report findings;
- Questioned external auditors about the current status of the previous years' financial statement audit findings;
- Questioned ITI about reports available for monitoring users of AHRS/HRTS;
- Reviewed the cash reconciliations for the two payroll accounts;
- Reviewed the Payroll Clearing Fund reconciliation;
- Reviewed personnel expenditure adjustments to the City's budget;
- Reviewed NOPD timesheets;
- Reviewed overtime reports;
- Reviewed user access to AHRS/HRTS;
- Reviewed wire transfer authorizations;
- Observed the signature stamp security procedures;
- Reviewed unclaimed payroll checks; and
- Inquired about the status of the *Accounting Policies and Procedures Manual*.

Computer-processed data was provided and relied upon. A formal reliability assessment of the computer-processed data was not performed. Hard copy documents reviewed supported the information contained in the computer-processed data.

¹ Association of Inspectors General, 2004.

II. FOLLOW-UP: CORRECTIVE ACTIONS

Recommendation #1: “The Civil Service Department should be able to prepare a listing of employees independently from the City’s MIS department when deemed necessary so that Civil Service can examine payroll and related records as stated in Rule X, Section 2.1 with the Payroll Unit’s listing.”

Corrective Actions:

Recommendation Accepted by Civil Service. “We concur.... As the City seeks to outsource payroll and considers an ERP solution, we have been included in that process and expect that in the future it may allow for more independence.”

Recommendation Accepted by the City. “...we are optimistic that implementation of a new payroll system as the administration is doing will dramatically improve the Civil Service department's access to information and their ability to obtain ad hoc reports timely.”

Follow-Up to Corrective Actions – Finding #1: The auditors were unable to test these corrective actions because the new payroll system, ADP, was not fully implemented at the time of the follow-up testing.²

Recommendation #2: “The City should resolve audit findings as soon as practical, and ensure that all findings are corrected before the subsequent year’s audit.”

Corrective Action:

Recommendation Accepted by the City. “...The City was able to recruit and hire nine (9) new Accountants in 2011...the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit.”

Follow-Up to Corrective Action – Finding #2: The City partially implemented this corrective action. The City added nine new positions to the Accounting Department in 2011. However, the prior year findings remained uncorrected in the 2012 financial statement audit.³

Recommendation #3: “Cash accounts should be reconciled and properly reviewed on a monthly basis to ensure that cash is accurately stated and errors are caught in a timely manner.”

² The scope period was the follow-up was October 1 through December 31, 2013. ADP was implemented on May 16, 2014 after testing was completed and subsequent to the end of the scope period.

³ The 2013 financial statement audit had not been finalized at the release date of this follow-up.

Corrective Action:

*Recommendation **Accepted** by the City. The City appropriated "...additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011....the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit."*

Follow-Up to Corrective Action – Finding #3: The City partially implemented this corrective action. The 2013 payroll cash accounts were reconciled; however, the auditors were unable to determine the completion dates, and therefore were unable to determine if the reconciliations were performed in a timely manner.

Recommendation #4: "The City should reconcile all payroll clearing accounts and properly review them subsequent to each payroll run to ensure that the accounts are properly stated and errors are caught in a timely manner."

Corrective Action:

*Recommendation **Accepted** by the City. The City appropriated "...additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011... The new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit."*

Follow-Up to Corrective Action – Finding #4: The City implemented this corrective action. The City's payroll clearing fund was reconciled in a timely manner.

Recommendation #5: "The City should timely amend the adopted budget when revenues are falling short and/or expenditures are exceeding projections. Objective guidance should be developed regarding when an amendment is necessary."⁴

Corrective Action:

*Recommendation **Accepted** by the City. "Mayor Landrieu's Administration will not continue past practices and will timely propose amendments to the adopted budget when significant differences in overall revenues or expenditure categories are projected."*

Follow-Up to Corrective Action – Finding #5: The City implemented this corrective action. The City amended the budget eleven times during 2013 for personnel related expenditures. The adjustments to the budget during 2013 totaled \$7.36 million.

⁴ City Charter – Section 6-103(5).

Recommendation #6: “All departments should comply with CAO Policy Memorandum No. 72(R) and require that employees and supervisors review and sign the timesheets to certify that the hours listed were actually worked.”

Corrective Action:

Recommendation Accepted by the City. “NOPD patrol officers are required to sign a daily Beat-Roll Book acknowledging their presence at roll call. The Beat-Roll Book data is entered into the Police Department's Trip System, the NOPD's time and attendance system. At the end of a pay period, the Trip System generates timesheets based on patrol officers actual attendance recorded from the Beat-Roll Book. Patrol Officers working on the 2nd or 3rd watches are not available to sign the printed timesheets to ensure timely processing of payroll.

CAO Policy Memorandum No. 72(R) will be amended to reflect the approved practice in the Police Department.”

Follow-Up to Corrective Action – Finding #6: The City implemented a modified corrective action. NOPD employees and supervisors reviewed and signed their time sheets as dictated in the TRIP policy. Instead of updating CAO Policy Memorandum No. 72(R) to reflect NOPD's practice, NOPD issued General Order #936 on February 25, 2013, mandating that "all employees must sign time sheets unless on extended leave of five (5) or more days. Upon returning from extended leave employees must sign time sheets and forward to the Payroll Section."

Recommendation #7: “The Civil Service Department, the Finance Department and MIS⁵ should work together to ensure that the payroll system has a control in place to limit the total number of overtime hours to the 416 hours per year permitted.

Additionally, all departments should obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week in compliance with Civil Service Rule IV, Sections 9.7(a) and (b).”

Corrective Actions:

Recommendation Accepted by the City. “...The City agreed that all departments will be reminded they should obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week in compliance with Civil Service Rule IV, Sections 9.7(a) and (b).

Additionally, The Civil Service Department and ITI will work together to ensure that timely payroll reports will be available to enable Civil Service and departments' verification of the overtime usage.”

⁵ MIS is now called Information Technology and Innovation (ITI).

*Recommendation **Accepted** by Civil Service. “We concur. This finding is illustrative of the problems that occur as a result of the Civil Service Department’s inability to produce reports independently of the City’s Information Technology Division...”*

Follow-Up to Corrective Action – Finding #7: This corrective action was not implemented. Civil Service was still unable to obtain meaningful overtime reports without ITI’s assistance. No evidence was available to show that City departments were reminded to obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week. Furthermore, a total of 201 (4.7%) of 4,310 City employees worked more than 416 hours of overtime in 2013.

Recommendation #8: “Approvals within HRTS should be monitored to ensure that an individual employee is not granted multiple levels of approval in the system.”

Corrective Action:

*Recommendation **Accepted** by the City. “To reduce risk the ITI Department has reduced the number of employees with the ability to perform all levels of approvals within HRTS and is also actively monitoring internal controls in the payroll system. Additional controls have also been put in place to monitor the activity of those few individuals with high levels of approval authority.”*

Follow-Up to Corrective Action – Finding #8: The City did not implement this corrective action. Two HRTS users continued to have the ability to perform all three levels of approval within his/her department. The City was unable to provide evidence that additional monitoring over approvals was performed as indicated in its corrective action.

Recommendation #9: “City policies and procedures regarding the Request for Payment Voucher should require dual signatures prior to initiating a wire transfer.”

Corrective Action:

*Recommendation **Accepted** by the City. “The Bureau of Treasury does require two signatures, one from the requesting department and one approving the request by the Bureau of Accounting, before initiating wire transfers.*

The only exception to this practice, an example of which the OIG identified, has been that wire requests originating within the Bureau of Accounting itself have customarily not required the additional initial signature. In the future the Bureau of Accounting will apply dual signatures when initiating a wire transfer...”

Follow-Up to Corrective Action – Finding #9: The City implemented this corrective action. The City applied dual signatures prior to initiating a wire transfer.

Recommendation #10: “The Bureau of Accounting should comply with all City policies and Louisiana State Laws.”

Corrective Action:

*Recommendation **Accepted** by the City. “...In the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be able to fully comply with Policy Memorandum No. 117 and Louisiana State Law for any amounts which should actually be escheated to the State.”*

Follow-Up to Corrective Action – Finding #10: The City did not implement this corrective action. As of November 1, 2013,⁶ the City had 3 payroll checks, totaling \$2,695, which were not escheated to the state as required by Policy Memorandum No. 117.

Recommendation #11: “The key to the cabinet where the signature stamp was stored should be kept in a secure location.”

Corrective Action:

*Recommendation **Accepted** by the City. “The City agrees with the finding and no longer stores the key to the signature stamp cabinet in an unlocked desk.”*

Follow-Up to Corrective Action – Finding #11: The City partially implemented this corrective action. The City kept the key to the signature stamp in a locked supply cabinet; however, an unauthorized individual⁷ had possession of the key.⁸

Recommendation #12: “The City should provide funding to ensure that personnel records are filed timely and accurately for ease of retrieval. Civil Service should consolidate all personnel files in one place to aid in the retrieval of documents and protect employees from identity theft. Additionally, the City and Civil Service should develop a records retention policy, which may permit electronic data storage and greatly facilitate document retrieval.⁹”

⁶ CAO Policy Memo 117 states that the City should escheat to the state no later than November 1st “...all unclaimed checks valued at fifty dollars or more issued one year prior to July 1...”

⁷ Senior Office Support Specialist.

⁸ Policy 01-2011 documents authorized individuals.

⁹ A similar observation was made in the Accounts Payable Internal Control Report which was released in May 2011.

Corrective Actions:

*Recommendation **Accepted** by the City. "...The City agrees that a document management system would greatly improve administrative efficiency, retrieval of documents, ease access to centralized inform, and reduce the financial and environmental costs of paper use. At present, funding has not been identified for a comprehensive citywide document management system but the City will assess this need as part of the budget process. The City is also at present developing records retention policies for City government, and is coordinating these efforts with the State Records Office to ensure compliance with State Law requirements."*

*Recommendation **Accepted** by Civil Service. "We concur. The Civil Service Department, as the official custodian of personnel records, is required to respond to public records requests in accordance with the Civil Service Rules and State law (La. RS. 44:33)..."*

Follow-Up to Corrective Action – Finding #12: The City partially implemented this corrective action. On June 26, 2013, the City approved Policy Memorandum No. 127, a records retention policy for City agencies to follow for the preservation and the maintenance of records; however, the document management system was still unfunded.

Recommendation #13: "The Payroll Unit and Bureau of Treasury should safeguard the manual payroll checks and develop a policy for the Bureau of Treasury to enforce when payroll checks have not been claimed promptly by City employees."

Corrective Action:

*Recommendation **Accepted** by the City. "As of 2006, all City employees were placed on direct deposit for payroll. The City only prepares a very small number of manual checks due to errors in processing or for new employees. The manual checks that are prepared are normally picked up on the pay day or next business day. The checks held overnight are now being secured. The Department of Finance will document these procedures."*

Follow-Up to Corrective Action – Finding #13: The City's corrective action was partially implemented. Policy 01-2011 documented the new procedures. However, the City stored the manual checks in an unlocked supply cabinet and an unauthorized individual¹⁰ was in possession of the key to the supply cabinet.

¹⁰ Senior Office Support Specialist.

III. FOLLOW-UP: OBSERVATIONS

Observation #1 Recommendation: “City employees should be required to complete the free online ethics training¹¹ available from the Louisiana Ethics Administration Program on an annual basis.”

Corrective Action:

*Observation **Accepted** by the City. “...the City will develop a plan to comply with the state requirement that all employees complete annual ethics training beginning in 2012.”*

Follow-Up to Corrective Action – Observation #1: This observation was implemented. The City adopted an email notification plan to remind employees of the requirement to complete the annual ethics training course. In 2013, 95% of the City’s employees completed the state required ethics training.

Observation #2 Recommendation: “The City should acquire a payroll system that offers technical support.”

Corrective Action:

*Observation **Accepted** by the City. “...The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRS system...”*

Follow-Up to Corrective Action – Observation #2: This observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, Time/Attendance service to replace AHRS during the scope of this audit.¹²

Observation #3 Recommendation: “The City should develop an alternate way to document approvals in AHRS or consider replacing the payroll system.”

Corrective Action:

*Observation **Accepted** by the City. “...The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRS system. The new payroll system would include improved levels of security and internal controls.”*

¹¹ The Louisiana Ethics Administration Program has a free one-hour online training program available that can be accessed at <http://204.196.0.55/EthicsTraining/login.aspx>.

¹² ADP was not fully implemented and processing payroll during the scope of this audit; therefore, no testing of the system was performed.

Follow-Up to Corrective Action – Observation #3: This observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, and Time/Attendance service to replace AHRS during the scope of this audit.¹³

Observation #4 Recommendation: “Policies and procedures should be developed to ensure that pending transactions in AHRS are monitored and corrected on a periodic basis. The City should also develop logs of changes and corrections to the AHRS software by user.”

Corrective Action:

*Observation **Accepted** by the City. “...The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRS system. The new payroll system would include improved levels of security and internal controls.”*

Follow-Up to Corrective Action – Observation #4: This observation was implemented. The City issued the request for proposals and acquired and installed ADP, a completely hosted Payroll, Time/Attendance service to replace AHRS during the scope of this audit.¹⁴

Observation #5 Recommendation: “MIS should resolve calculation errors found in payroll reports promptly to ensure that reports are meaningful.”

Corrective Action:

*Observation **Not Accepted** by the City. “The ‘List Check History Records’ is used to validate an employee's bi-weekly earnings. The ‘Leave Accruals and Usage by Month Inquiry’ and/or ‘Employee Leave Activity Inquiry’ are the reports to validate an employee's leave usage and leave balance.”*

Follow-Up to Corrective Action – Observation #5: This observation was not accepted; therefore, follow-up testing was not performed.

Observation #6 Recommendation: “The City should update the *Accounting Policies and Procedures Manual* annually.”

¹³ ADP was not fully implemented and processing payroll during the scope of this audit; therefore, no testing of the system was performed.

¹⁴ Ibid.

Corrective Action:

*Observation **Accepted** by the City. "...The City agrees that current policies and procedures have not been updated annually. Some updating has taken place. For example, in 2006 the City hired a consultant to document a number of accounting policies and procedures. The outcome of this engagement provided the City with documented procedures and workflows for use with systems such as BuySpeed and Great Plains. The City will work to overhaul all its policies and procedures in a comprehensive manner as part of the implementation of the ERP system over the next few years."*

Follow-Up to Corrective Action – Observation #6: The auditors were unable to test this corrective action because the new payroll system, ADP, was not fully implemented.¹⁵

¹⁵ ADP is the payroll portion of the ERP.