March 14, 2014

Honorable Patty Lent, Mayor
Members of the City Council

The City Auditor has completed the attached review of the payroll process. This project was scheduled on the 2013 work plan.

The payroll process has some complex segments. However, it appears to be well handled by the staff. Some procedures were noted as being in need of minor adjustments. One significant observation is that only about half of the city employees use the electronic time keeping, which was implemented starting in January 2008.

The final draft of this report, including review by the Director of Financial Services, was completed in December. However, the Director departed before the response was written. The Interim Director of Financial Services has had a substantial addition in workload and has responded as circumstances permitted. That reply is attached.

The cooperation and assistance of the payroll specialist, departments and the departmental time keepers is greatly appreciated.

Sincerely,

Gary W. Nystul

cc: City Attorney
          Director of Financial Services

REVIEW OF PAYROLL PROCESS

Purpose

The City Auditor routinely reviews various funds, departments and divisions. This review of the payroll process was scheduled in the 2013 work plan.

Scope

The procedures used for the preparation of the payroll for the period from January 2012 and through June 2013 were reviewed.

Statement of Auditing Standards

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards, except section 3.82 which requires an external peer review. Those standards require the auditor to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Objectives

- Review the process used by employees to record their time/attendance
- Review management processing of records of employee time/attendance
- Review payroll processing and distribution
- Report any observations for economy, efficiency, effectiveness or improvements to the system of internal control

Summary of Results

- After five and one half years in use, only 50% of employees use electronic timekeeping
- The various departments use over 25 different paper forms to process pay
- There are some supervisors who are approving their own attendance
- The only person who prepares the entire city payroll does not have a fully trained backup

BACKGROUND

The cost of salaries and wages is the city's largest single expense. This review is to assess the policies and procedures used to prepare the payroll. This review does not include examination of the benefits which include health insurance, pension costs, and workers compensation costs.

The number of full time equivalent employees (FTEs) has been declining in recent years due to the economic conditions. However, with over 300 employees it is still an important and challenging task to accurately issue pay twice a month. The budgeted number of employees (FTEs) for the last few years is as follows.

	2009	**2010**	**2011**	**2012**	**2013**
FTEs	369.68	356.13	332.38	312.98	308.88

The following table shows total actual salaries and wages for all employees for the last few years and the budget expense for 2013. These amounts include all funds.

	2009	**2010**	**2011**	**2012**	**2013 Budget**
Salaries & Wages	24,665,947	24,857,930	23,911,849	22,846,053	23,479,953
Extra Help	384,762	228,080	194,045	232,623	380,375
Disability	173,120	110,999	69,363	63,140	130,000
Standby	146,304	170,435	169,805	239,352	242,300
Overtime	1,158,744	954,225	1,000,599	1,202,282	763,800
Total	26,528,877	26,321,669	25,345,661	24,583,450	24,996,428

Many who examine financial data are interested in only the General Fund since it is the primary operating division of the city. In 2012 the General Fund salaries and wages were $17,664,252 and benefits were $7,794,635. This is 52% and 23% respectively of total General Fund expenditures. Included in the General Fund benefits are $2,001,746 of retirement benefits for police and fire under LEOFF 1. General Fund salaries and wages are 77% of total city salaries and wages in the above schedule.

The payroll process is based on the entry of an employee's time or attendance in a payroll record. This may include an entry into an electronic time record, entry on paper daily labor report forms, entry on excel schedules which are printed out, or entry into reports prepared by scheduling software. The process is unique to the various departments.

In January 2008 the city started using electronic timekeeping. This process allows the employee or a department timekeeper to enter the employee's hours of work, leave or attendance into an electronic (paperless) system. At the end of the pay period the supervisor(s) enter their approval with an electronic signature and the data is transmitted electronically to the payroll specialist. The payroll specialist reviews the data and transfers it into the accounting system where the payroll is computed. As of March 2013, only 50% of city employees were using electronic timekeeping.

Some departments use paper daily labor report forms to capture the individual employee's daily activity. In some departments, the hours are then entered manually into an excel payroll worksheet which is printed, approved with a manual signature and then delivered to the payroll specialist. The payroll specialist must re-enter the data into the payroll system. In other departments the hours are entered by the department timekeeper from the paper forms into the electronic time system.

New employee records and change in rates of pay for existing employees are usually created in the HR department and entered into the payroll system. Payroll deductions are approved by employees and also entered in the payroll. Most employees have their net pay deposited electronically into their various financial accounts. However, there are about 6 full time employees still receiving paper checks.

There are two pay periods each month. One is from the first through the 15th and the other from the 16th to the end of the month.

NOTE: A schedule outlining the payroll processing for the various departments and a flowchart which compares payroll processing for manual and electronic timekeeping are attached at the end of this report.

FINDINGS AND RECOMMENDATIONS

The following topics are areas identified in the review that present certain procedures which should be addressed by city management.

1. ELECTRONIC TIMEKEEPING NOT USED BY ALL EMPLOYEES

The city started using electronic time keeping in January 2008 (over 5 ½ years ago). This procedure allows an employee to enter hours worked, sick, vacation and etc. directly into the timekeeping system. The supervisor then approves the

entries electronically rather than signing a paper time record. The payroll specialist can easily electronically process the employee's pay. However, there are still many employees who are not on the electronic system.

For the March 15, 2013 payroll, 161 employees were using electronic time keeping and 158 were still manual. The major departments not yet on electronic time keeping are police, fire and parks. There does not appear to be an implementation schedule to add the remaining three large departments.

RECOMMENDATION

Electronic timekeeping is an efficient procedure to use for processing payroll. The Department of Financial Services should implement electronic timekeeping for all employees.

2. APPROVAL OF TIME SHEETS

The excel Payroll Worksheet Form requires a signature from an approving supervisor. Several instances were noted in the police and parks departments of supervisors approving timesheets which included their own time.

RECOMMENDATION

It is not acceptable for an employee to approve their own payroll worksheet. The sheets should be formatted to include only the employees who are reporting to a supervisor to be listed on a form. The procedures should be corrected by the parks department and the police department.

3. BACKUP FOR PAYROLL SPECIALIST

The departments complete their input for the pay period and transmit or deliver it to the payroll specialist for processing. The payroll specialist receives the input, enters manual time records in the system, processes the pay, creates the manual checks, does the bank transfers, and makes the payroll reporting. When the payroll specialist is absent, there is not anyone fully trained to process pay. It currently takes a collaboration of several individuals to completely process the pay.

RECOMMENDATION

The Department of Financial Services should have a fully trained employee to fill in when necessary for the payroll specialist as this is a critical task. With limited staffing this may be a challenge to the Department. However, it is a critical function and a reasonable backup procedure should be in place.

OTHER MATTERS

The following items noted during this review should be addressed by the appropriate department (s).

NUMBER OF FORMS USED

There are over 25 different forms used in the various departments to record pay. The payroll system uses a combination of manually prepared paper forms and entries in the electronic timekeeping system. In some instances daily paper forms are used and the data is entered in the electronic system. Both methods of time entry are migrated to the financial accounting system which computes the pay. It would be beneficial for city management to assist in reviewing the forms used with a goal of simplification.

RETENTION ISSUES

The number of different forms used for payroll can cause some potential record retention issues. Chapter 40.14 of the Revised Codes of Washington, as promulgated through the State Archives, establishes how long payroll records must be kept. The record retention schedules have not been consistently understood and followed by all departments. For example, the daily labor reports are to be retained for four years. Some departments have many years of records and others keep the minimum. All departments should review their payroll forms to ensure compliance with the retention schedules. City management could assist in identifying which records are to be retained and for what period of time.

DEPARTMENTAL PROCEDURES

Each department has established a procedure and the forms to process pay. In some instances there appears to be extra work and marginal value. For example, in Public Works daily labor reports are consolidated onto a single sheet by each supervisor which is then entered into the electronic timekeeping system by the timekeeper. The timekeeper also enters the data into an excel schedule which is used to reconcile the electronic time at the end of the pay period. The data for the street crew is also entered into Cartegraph for job costing. The electronics division enters their time and job costing directly into Cartegraph. The daily labor reports for the utilities are filed away for reference in case of a backup or break.

It would be helpful if management provided technical assistance to the departments to review the needs and procedures of the departments and adopt the

processes they need. For example, it may be advantageous to electronically scan the utility daily labor reports so they could be more easily stored and retrieved in future years. There may be other methods to accumulate street department costs that would meet the department's needs rather than manually entering the data in Cartegraph. Each department's process should be reviewed.

TIMEKEEPER BACKUP

One instance was noted during the review period where a new timekeeper was filling in and was not well prepared. Each employee who prepares a department payroll should have a trained backup to fill-in if necessary. The orderly, timely, accurate preparation of the semi-monthly pay requires individuals who are familiar with the process. Department directors should ensure their staff is adequately cross trained.

PAYROLL MANUAL/INSTRUCTIONS

The City does not have a written or electronic payroll manual or compilation of standard written instructions available for guiding departments and employees in the preparation and processing of pay. Employees who maintain the payroll in the various departments change from time to time. Email directives and information are issued periodically by HR and Finance but are not retained in any document or electronic file accessible to the various departments.

It would be helpful to have either written or computerized instructions for payroll preparation. Such a reference file of email directives could assist departments in correctly processing pay and maintain consistency thru-out the city.

OUTLINE OF PAYROLL PROCEDURES USED BY THE DEPARTMENTS

The following outline briefly describes the procedure used by each department to process pay. The reference to an "excel payroll worksheet" refers to the standard city payroll input form used by a department to report the pay. It is signed by someone in the department indicating approval. Other excel schedules are individual forms or databases maintained by the individual department. Electronic time keeping is the system used to record time and then transmit the data to the payroll specialist.
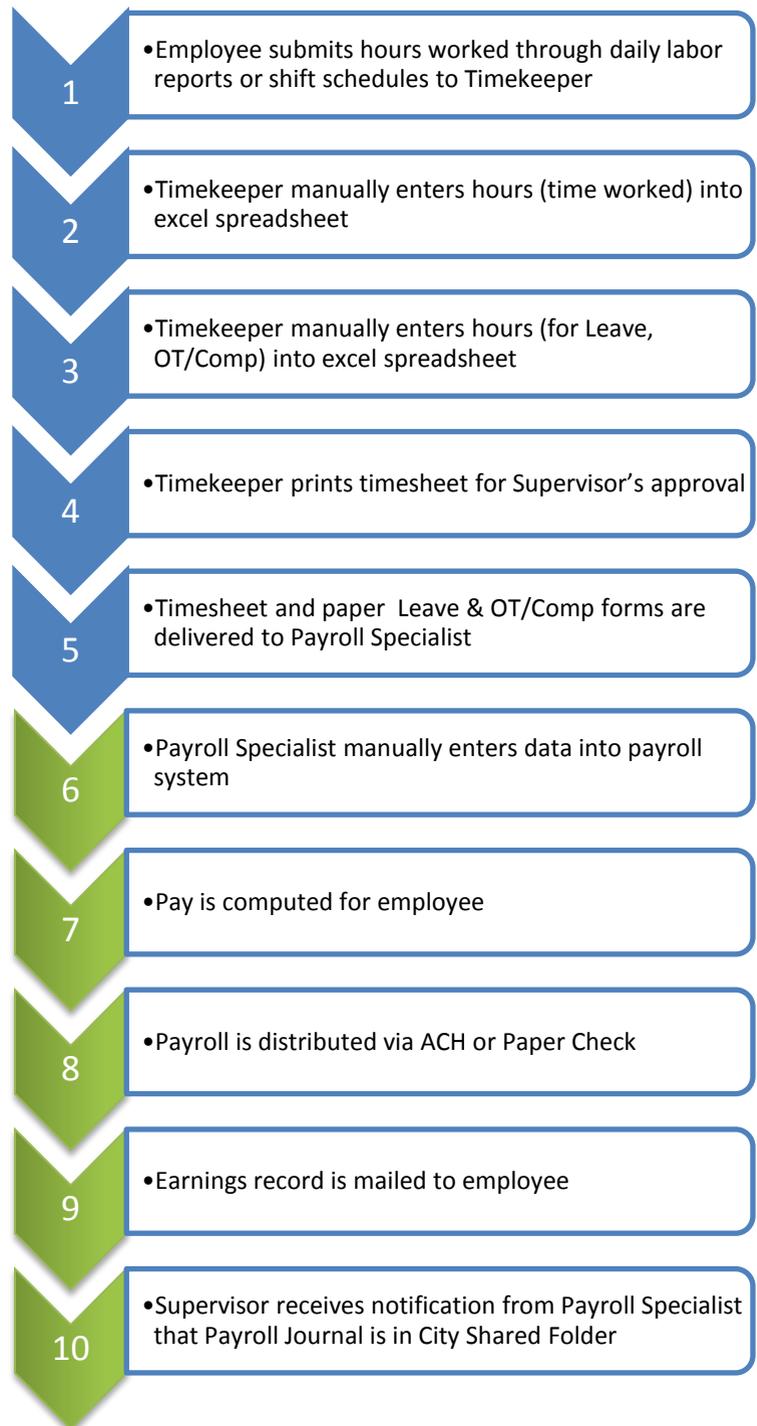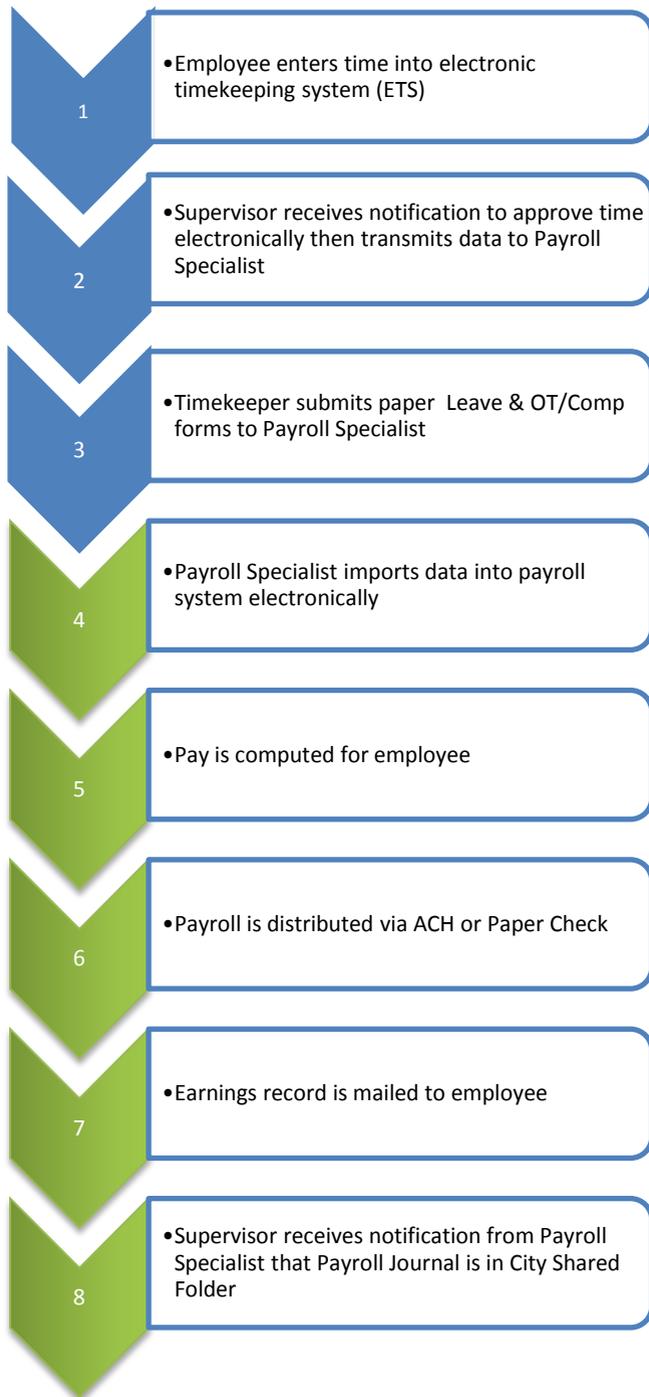
- Administration
  - The mayor's office uses electronic time keeping
  - The mayor approves the electronic time of department directors
  - The mayor approves the time of her administrative assistant

- City Council
  - Council staff enters time in electronic time keeping
  - Council staff time is approved by the Risk Manager
  - Council attendance is entered on an excel payroll worksheet which is submitted on paper and approved by the Council President

- Legal
  - The legal staff is on electronic time keeping
  - The city attorney approves the staff time

- Police
  - Police attendance is recorded on the ISIS system which is their scheduling software
  - The department timekeeper enters time from the ISIS system into an excel payroll worksheet form which is printed out and signatures attached

- Fire
  - A daily attendance report is prepared by the duty chief in the Emergency Reporting software
  - The department timekeeper enters daily information into an excel payroll worksheet
  - Fire marshals and office assistant time is recorded in Excel
  - Fire chief signs time sheet which is submitted to the payroll specialist

- Parks
  - Recreation staff fills out paper forms for classes and work
  - Recreation supervisor enters time into excel payroll worksheet
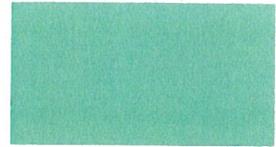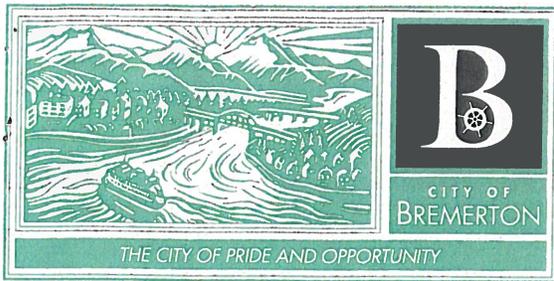 - Recreation supervisor signs paper excel form

- Parks maintenance staff prepare paper daily labor reports
- Parks maintenance supervisor enters information on excel payroll worksheet as well as creating an excel schedule of labor for the various parks
- Maintenance supervisor approves payroll

- Park planner fills out excel payroll worksheet
- Parks Director approves excel worksheet

- Public Works Water/Sewer/Storm/Streets
  - Employees fill out paper daily labor report
  - Supervisors consolidate information onto one form for each division
  - Department timekeeper enters data into excel, and electronic time for Street division time entered into Cartegraph
  - At end of pay period department timekeeper compares excel schedule to electronic time for approval
  - Supervisors approve electronically
  - Department timekeeper compares Cognos payroll reports to entries in the system. However, she must use a different computer because the software program for comparison is not compatible with her computer

- PW Electronics
  - Electronic staff enter time in Cartegraph electronic daily labor report
  - Department timekeeper enters time into electronic pay
  - Equipment services manager approves pay

- PW Equipment Services
  - Each staff enter hours on a paper time record for all employees
  - Department timekeeper enters time into electronic time system
  - Supervisor approves pay
  - Office assistant enters her time into electronic pay
  - Utility billing supervisor approves her time

- Wastewater Treatment Plant
  - Employees fill out attendance, overtime, call-out sheets and etc. in a three ring binder
  - Department timekeeper enters into electronic time
  - WWTP manager approves electronically

- PW Forestry
  - Employees fill out forms manually and send to WWTP
  - WWTP timekeeper enters data in electronic system
  - Forestry manager approves pay electronically

- Community Development
  - Staff enters time in electronic time system
  - Director approves time electronically

- Financial Services
  - Staff enters time in electronic time system
  - Director approves electronically

Bremerton Payroll Process
Electronic vs. Traditional

Electronic

1. •Employee enters time into electronic timekeeping system (ETS)
2. •Supervisor receives notification to approve time electronically then transmits data to Payroll Specialist
3. •Timekeeper submits paper Leave & OT/Comp forms to Payroll Specialist
4. •Payroll Specialist imports data into payroll system electronically
5. •Pay is computed for employee
6. •Payroll is distributed via ACH or Paper Check
7. •Earnings record is mailed to employee
8. •Supervisor receives notification from Payroll Specialist that Payroll Journal is in City Shared Folder

Traditional

1. •Employee submits hours worked through daily labor reports or shift schedules to Timekeeper
2. •Timekeeper manually enters hours (time worked) into excel spreadsheet
3. •Timekeeper manually enters hours (for Leave, OT/Comp) into excel spreadsheet
4. •Timekeeper prints timesheet for Supervisor's approval
5. •Timesheet and paper Leave & OT/Comp forms are delivered to Payroll Specialist
6. •Payroll Specialist manually enters data into payroll system
7. •Pay is computed for employee
8. •Payroll is distributed via ACH or Paper Check
9. •Earnings record is mailed to employee
10. •Supervisor receives notification from Payroll Specialist that Payroll Journal is in City Shared Folder

CITY OF
BREMERTON
THE CITY OF PRIDE AND OPPORTUNITY

MEMORANDUM

February 28, 2014

TO: Gary Nystul, City Auditor

FROM: Cathy Johnson, Interim Director of Financial Services

RE: Response to Review of Payroll Process

Please find below the official response to the above referenced audit report.

Electronic Timekeeping Not used By All Employees

The City contracted in early 2013 for an upgrade to our financial accounting system. This upgrade includes a substantial change to the electronic timekeeping system (ETS). The addition of employees to the electronic system was stopped pending implementation of the new system. Software configuration and installation was completed in September with training following in November. We are currently testing the new software and hope to be ready to implement by the end of second quarter. At that time we will schedule the remaining departments for implementation.

Approval of Time Sheets

We agree that no employee should be approving their own time. All employee timesheets will be reviewed and all instances of this type will be corrected.

Backup For Payroll Specialist

Staffing for a single payroll backup was in place until 2011 when an Accounting Assistant II position was eliminated. Since that time we have relied on a team approach as we have three staff members that are familiar with the payroll system and employee contracts. With the proposed addition of an Accountant/Financial Analyst we should have the ability to concentrate more of the backup payroll functions with a single individual.

Other Items

Number of Forms Used

There is no one size fits all solution to the forms required to process payroll in a department. The size and nature of work performed directly impacts the number and type of forms required. We acknowledge that in many cases some processes have not evolved with technology and are trying to work with individual departments to streamline their processes when we see areas of possible improvement.

Retention Issues

Each department has an employee assigned to address records retention for their department or division. The City Clerk works with these individuals and notifies them of available training. Because of public disclosure requirements it is essential that departments keep up to date on destruction of records beyond the retention period. The City Clerk will follow up with the individuals responsible for records retention in each department with the retention guidelines in case there is any confusion on what is required.

Departmental Procedures

As stated above we make recommendations to departments on improvements to their procedures when items are brought to our attention. We are happy to assist any department that requests technical assistance in improving their processes. We are currently working with Public Works to streamline the collection of data and limit exceptions to assigned default payroll distributions.

Timekeeper Backup

We continually remind departments of the importance of timekeeper backup as there are direct impacts to the timely and accurate payment of employees when a trained backup has not been appointed.

Payroll Manual/Instructions

Training information is provided to timekeepers via email or at formal training sessions. In the past we have relied on department timekeepers to keep the information provided as well as any department procedures in a single binder for their needs and to be available to backups or passed on to subsequent timekeepers. With the upgrade to a new electronic time entry system we will consolidate all training materials in a single manual maintained by the payroll specialist. The payroll specialist has also begun providing one on one training of all new timekeepers. This information can be provided and reviewed at that time.