

OFFICE OF THE CITY CONTROLLER



**HEALTH AND HUMAN SERVICES DEPARTMENT
PAYROLL POLICIES AND PROCEDURES AUDIT**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

September 26, 2003

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

SUBJECT: Health and Human Services Department-Payroll Policies and Procedures Audit
(Report No. 03-20)

Dear Mayor Brown:

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

The auditors concluded that the Department has adequate internal control systems pertaining to overtime and compensatory time and the Department was in compliance with the applicable federal, state and local laws. However, internal controls could be strengthened by transferring the data entry function from the Payroll Section to the timekeepers in the bureaus. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible department officials as to action taken or being taken are appended to the report as Exhibit I.

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

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Stephen Tinnermon, Chief of Staff, Mayor's Office
M. desVignes-Kendrick, MD, MPH, Director, Health and Human Services Department
Philip Scheps, Director, Finance and Administration Department

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September 10, 2003

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

Dear Controller Johnson:

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

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

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

The scope of the HDHHS City-Wide Payroll Policies and Procedures Audit included assessing the policies and procedures for administering and documenting payroll for HDHHS, for the audit period of July 1, 2001 to December 31, 2002 (the "scope period"). The authorization, recording and monitoring of overtime and compensatory time was decentralized throughout HDHHS. As a result, MFRPC selected four bureaus within HDHHS for detailed review. The four bureaus selected were LAB; Environmental Health Division (EH); Bureau of Woman, Infant and Children (WIC) and Multi-Service Centers. MFRPC interviewed the timekeepers and documented the processes for the authorization, recording and utilization of overtime as well as compensatory time. MFRPC identified areas of high risk related to the overtime and compensatory time and evaluated the effectiveness of the applicable internal controls. MFRPC also selected a sample of payroll transactions with significant amounts of overtime paid and/or compensatory time earned during the scope period for detailed testing. In addition, we observed EH's payroll check and advice distribution process for the May 23, 2003 payroll. EH has approximately 162 employees in several bureaus. We verified the employees' identification and witnessed them signing for receipt of their payroll check or advice. We were able to properly verify that a sample of 95 employees in three bureaus of the division were valid City employees. The remaining 67 employees were located at satellite locations and were not a part of the payroll distribution review.

Our procedures were performed through May 30, 2003 and have not been updated since then.

Based upon the results of our review, HDHHS has adequate internal control systems pertaining to overtime and compensatory time and HDHHS was in compliance with the applicable Federal, state and local laws. However, internal controls could be strengthened by transferring the data entry function from Payroll (HDHHS Payroll) to the timekeepers in the bureaus. In addition, HDHHS Payroll would monitor the department's payroll process and provide the necessary facilitation.

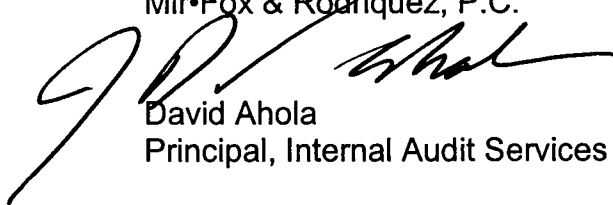
In general, the payroll timekeeping, check and advice distribution systems are labor intensive processes that should be reviewed by the City to determine if there are more efficient and cost effective methods with today's technological solutions. The City could for example use timesheet entry through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

Honorable Judy G. Johnson, City Controller
September 10, 2003
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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 Department of Health and Human Services, the Controller's Office, Human Resources Department, Information and Technology Department and the Finance and Administration Department.

Very truly yours,

Mir•Fox & Rodriquez, P.C.

A handwritten signature in black ink, appearing to read 'D. Ahola', is written over the printed name and title.

David Ahola
Principal, Internal Audit Services

DA/jh

Introduction

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

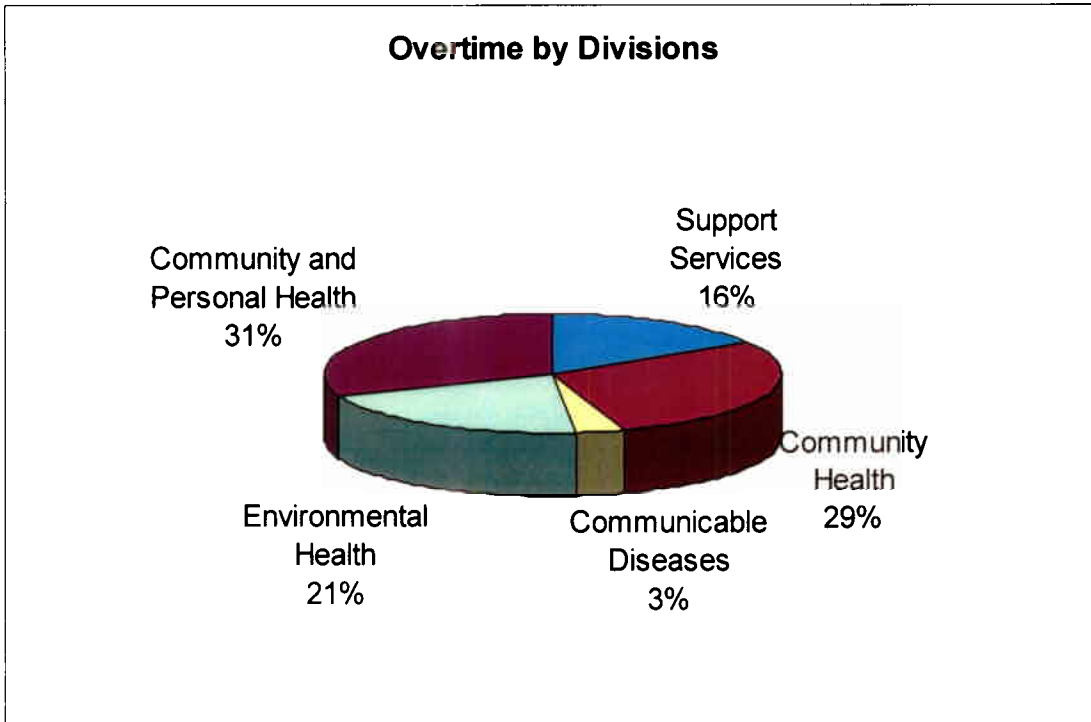
Timesheets are delivered to the City departments weekly by City messengers. The departments complete the timesheets for their employees and enter the time from the timesheets into the Advantage Human Resources System (AHRS). The payroll is processed through AHRS and the checks or advices are manually delivered to the employees biweekly.

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

HDHHS has approximately 1,300 employees in 40 bureaus. Their payroll for June 1, 2001 through December 31, 2002 was approximately \$85 million. Overtime for the audit period June 1, 2001 through December 31, 2002 was \$ 1.25 million.

Overtime costs for the 50 top earners totaled \$353,647. The overtime was pretty evenly distributed among four of the divisions. Compensatory time earned was an insignificant amount.

See pie chart below for allocation of overtime for the audit period among the HDHHS divisions.



Responsibility for Data Entry Delegated to the Timekeepers

Background

Currently, all data entry for payroll is performed by HDHHS Payroll (Payroll Section). The Payroll Section is composed of one payroll supervisor, two payroll clerks and an administrative specialist. The Payroll Section is responsible for inputting exception time into AHRS for approximately 1,300 HDHHS employees.

Each Friday, the Payroll Section receives all of the exception time from the bureaus. The Friday before the pay week, the Payroll Section has until 7 PM to input all of their employees' time. Since all HDHHS bureaus have to submit their timesheets to the Payroll Section by 10 AM on Friday, any time reported after 10 AM has to be inputted on the following Monday as a current or prior period exception.

Finding and Recommendation

Finding

We noted that for the payroll period August 24, 2002 through September 6, 2002, WIC and EH (Water Quality, Occupational Health, and Air Quality Bureaus) had 53 and 15 modifications, respectively that had to be processed by the Payroll Section in AHRS on the following Monday of the pay week. These modifications primarily consisted of exception time taken by an employee after the Friday 10 AM deadline. In addition, based on our discussions with the Payroll Section, they have mostly worked overtime to meet the Friday evening input deadline.

At the time of our pre-exit meeting, HDHHS informed MFRPC that HDHHS had already decided to delegate the data entry function to the timekeepers in the bureaus. HDHHS is in the process of developing the related policies and procedures. Once their policies are developed, HDHHS plans to select a key bureau to pilot their new process. Once the pilot is completed, HDHHS will revise its procedures to address any issues discovered in the pilot. Then, the new process will be implemented in the remaining bureaus.

Recommendation

We recommend that HDHHS continue implementing their plan to delegate the payroll data entry function. As part of the HDHHS implementation plan HDHHS should include but not be limited to the following:

- Obtaining approval of the new process from the HDHHS Director and the Assistant Directors.

- Preparing policies that make the bureaus responsible and accountable for ensuring that their employees' time is entered into AHRS accurately and timely.
- Developing procedures outlining the new responsibilities of the Payroll Section as the monitor and facilitator of the payroll process.
- Training the timekeepers on the data entry and payroll closing processes.
- Coordinating with the City's Central Payroll department to ensure that the individual bureaus receive the required payroll reports for their areas.

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

EXHIBIT I

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO Judy Gray Johnson
City Controller

FROM M. desVignes-Kendrick, MD, MPH
Health and Human Services

DATE September 11, 2003

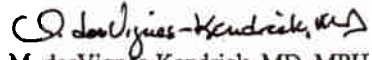
SUBJECT **City-Wide Payroll Policies and
Procedures Audit – Houston
Department of Health and Human
Services, Draft Report**

This is our response to the subject report, forwarded by Mr. Davis Ahola, Principal Internal Audit Services of Mir. Fox & Rodriguez, P.C.

The subject report contains one finding and the related recommendation. We concur with the contents of both of them.


I wish also to thank the auditors for the courtesy and cooperation extended during the audit.

If further information required, please contact Monir Ibrahim at (713) 794-2990.


M. desVignes-Kendrick, MD, MPH
Director
Houston Department of Health
and Human Services

**Views of Responsible
Officials**

MdK/MI/sms

cc:  Earl Travis, Deputy Director, Houston Department of Health and Human Services
Steve Schoonover, City Auditor
Monir Ibrahim, Division Manager-Internal Audit, Houston Department of Health and Human Services
Al Amaya, Bureau Chief, Houston Department of Health and Human Services
Davis Ahola, Principal Internal Audit Services, Mir.Fox & Rodriguez, P.C.
Carl Medley, Division Manager, F & A