

**OFFICE OF THE CITY CONTROLLER**



**AVIATION DEPARTMENT**

**PAYROLL POLICIES AND PROCEDURES  
COMPLIANCE AUDIT**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

January 18, 2005

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Aviation Department  
Payroll Policies and Procedures Compliance Audit (Report No. 04-45)

Dear Mayor White:

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

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

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

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Richard M. Vacar, Director, Aviation Department  
Judy Gray Johnson, Director, Finance and Administration Department

October 11, 2004

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

Dear Controller Parker:

In connection with various City of Houston (the City) Payroll Policies and Procedures Audits, Mir-Fox & Rodriguez, P.C. (MFRPC) has completed the audit of overtime and compensatory time pertaining to the City's Aviation Department (Aviation). During January through December 2003, Aviation paid approximately \$42.2 million for its personnel services of which \$1.6 million related to overtime.

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

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

Honorable Annise D. Parker, City Controller  
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The scope of the Aviation payroll policies and procedures audit included the assessment of the policies and procedures for administering and documenting payroll pertaining to Aviation, during the audit period of January 1, 2003 through December 31, 2003 (the scope period).

MFRPC interviewed the supervisors and timekeepers and documented the processes for the authorization, recording and utilization of overtime. According to Aviation payroll personnel, compensatory time was not applicable to the Aviation. We confirmed the fact that compensatory time was not earned or recorded for the employees of Aviation.

For the purpose of our audit, MFRPC selected a sample of 50 employees assigned to the following six divisions for a detail review of overtime:

- Building Service International Airport,
- Ground Transportation International Airport,
- Planning, Design and Construction,
- Public Safety,
- Building Service Hobby Airport, and
- Ground Transportation Hobby Airport

The overtime paid to the selected employees during the scope period totaled 18,264 hours or \$336,000, which represented approximately 21% of the total overtime paid. MFRPC performed detailed testing of overtime for the sample mentioned above. Also, we observed the May 21, 2004 payroll check (check) and direct deposit payment advice (advice) distribution process.

Our procedures were performed through May 31, 2004, and have not been updated since then.

Based upon the results of our review, Aviation was in compliance with the applicable federal, state and local laws. The internal controls, policies and procedures pertaining to overtime were adequate to provide reasonable assurance that compensatory time and overtime were accurately computed, properly reported, recorded and supported. Additionally, we determined based on our testwork that check and remittance advices were being provided to authentic City employees.

However, internal controls could be strengthened by improving the approval process related to *emergency and unscheduled* overtime.

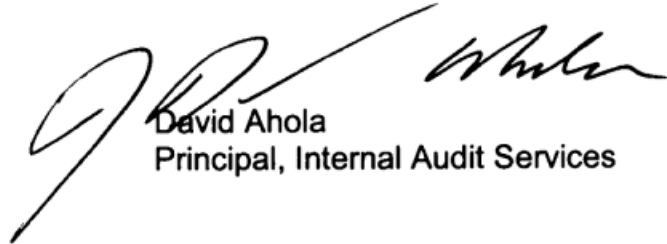
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In general, the check and advice distribution system is a labor intensive process that is currently under review by the City Controller to determine if there are more efficient and cost effective methods with today's technological solutions. Aviation has approximately 71% of its employees on direct deposit payroll. Aviation should continue encouraging its employees to have their paychecks directly deposited into their bank account.

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

Very truly yours,

Mir•Fox & Rodriquez, P.C.



David Ahola  
Principal, Internal Audit Services

DA/ea

**CITY OF HOUSTON**

**Payroll Policies and Procedures Audit – Aviation Department**

**May 31, 2004**

## Introduction

Aviation has approximately 1,300 employees that are considered either salaried (exempt) or hourly (non-exempt). The City pays both exempt and non-exempt employees by exception reporting. Exception reporting consists of recording time not worked and time worked in excess of 40 hours.

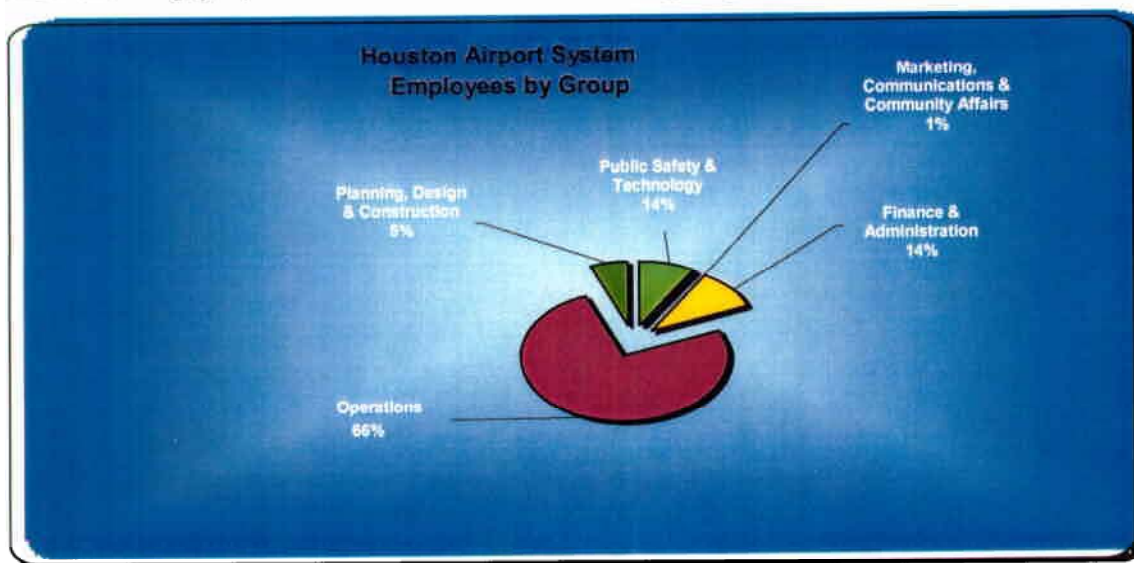
Aviation uses the automated Genesis system to record the time that an employee clocks-in and clocks-out. The timekeepers enter the exception time including sick time and vacation time into the Genesis system. Subsequently, the relevant time data is transferred from the Genesis system into the City's Advantage Human Resource System (AHRS). The AHRS processes and calculates the amount of payroll and prepares the related checks and advices. The checks and advices are manually delivered to the employees biweekly.

In accordance with the Aviation Department's regulations, overtime and compensatory time must be approved by supervisors and scheduled in advance. Employees do not have the option of receiving compensation for overtime hours worked as either overtime pay or compensatory time (time-off) and exempt employees are usually excluded from earning overtime pay, except in specific instances which are outlined in the City Ordinance section 14-168.

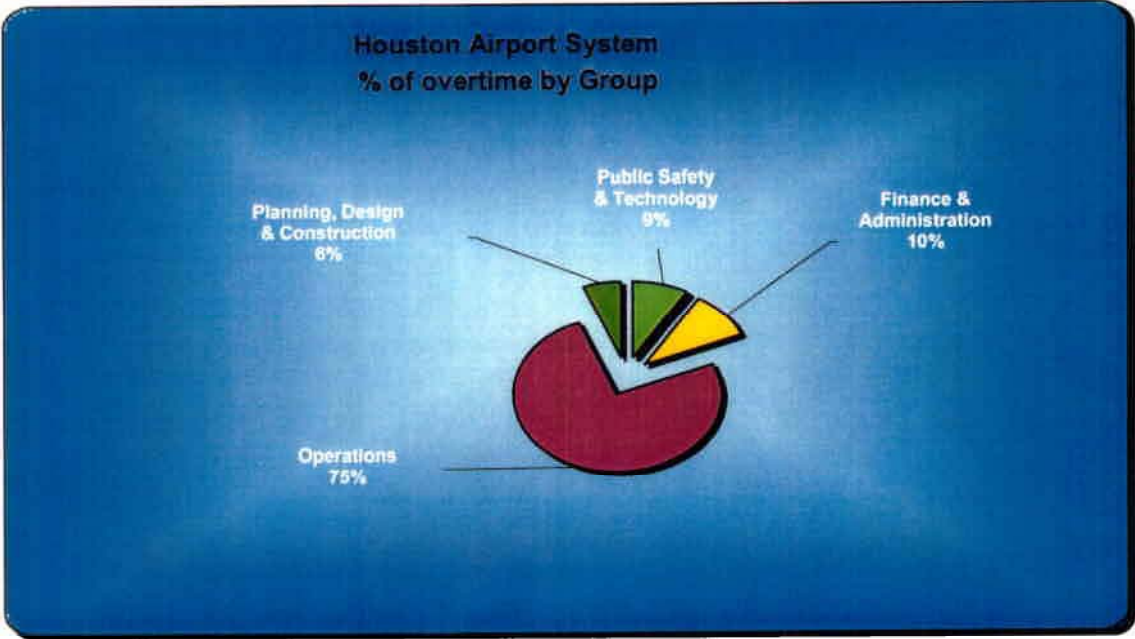
Aviation's personnel are segregated into the following five groups:

- Finance & Administration,
- Planning, Design & Construction,
- Operations,
- Marketing, Communications & Community Affairs, and
- Public Safety & Technology.

The following graph illustrates the size of each group:



The overtime incurred during the scope period was as follows:



Our analysis indicated that \$298,080 or 18.63% of the overtime incurred during the scope period was paid to 30 employees. We noted that 14, mostly janitorial staff, or 41% of the 30 employees were assigned to the Building Services Division at the George Bush Intercontinental Airport which is a part of the Operations Group.



## **Approval of emergency or unscheduled overtime**

### **Background**

The Aviation Department's policy specifies that the employee's immediate supervisor must authorize overtime hours worked in advance. The policy requires operating managers and supervisors to attempt to plan ahead in order to avoid overtime requirements; however, due to the nature of the Airport activities, Aviation occasionally incurs unscheduled or emergency overtime.

### **Finding and Recommendation**

#### Finding

Aviation's policies and procedures do not specify how the approval for emergency overtime should be documented.

Under the current practice, emergency overtime is approved after it is incurred and the approval process is inconsistent. For example, some approvals are verbal while others are in a written format. For approvals that are not properly documented, the City is at risk of paying for excess emergency overtime.

#### Recommendation

The Aviation department should clarify the procedure for documenting emergency overtime approvals. Consideration should be given to approving the biweekly "Overtime Hours Exception Report" generated from the Genesis System, instead of developing a new authorization form. In addition, timekeepers should ensure that all the overtime incurred, either scheduled or unscheduled, has been authorized in writing.

# EXHIBIT I

## CITY OF HOUSTON

### INTEROFFICE CORRESPONDENCE

TO: Annise D. Parker  
City Controller  
Controllars Office

FROM: Director of Aviation  
Houston Airport System

DATE: November 4, 2004

SUBJECT: HAS Payroll Audit 2004

We have reviewed the audit finding and recommendation made by Mir Fox & Rodriguez. The majority of overtime within the Department is anticipated and scheduled in advance after approval of the responsible operating manager. Given that we are a 24/7 operation there are a number of occurrences for emergency overtime. In these occurrences the first line supervisor or lead person approves the overtime as needed. Our Human Resources Division routinely provides the operating managers the Overtime exception report after each payroll closing. We will continue to provide this information so that they may monitor the overtime usage and address any inappropriate overtime. If the operating manager is not aware of the reason for the overtime, an inquiry is initiated with the appropriate supervisor to determine the reason and appropriateness of the overtime. If it is determined that the overtime was not justified the operating manager takes appropriate action through counseling or discipline.



If you have any questions or desire additional information, please advise.



Richard M. Vacar

**Views of Responsible  
Officials**

RMV:rwn

cc: Richard Berrones  
Dolores Butler Rodgers   
Richard W. Newton   
Central File

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