

# Office of Internal Audit



## **Compliance Audit 2020-01 Police Department Payroll**

**August 2020**

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**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville's operations.

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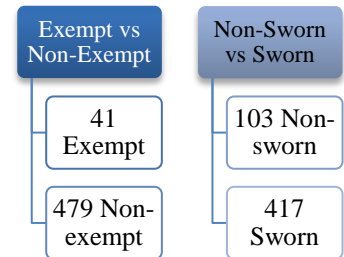
## EXECUTIVE SUMMARY

In accordance with the Fiscal Year 2020 Audit Plan, Internal Audit conducted an audit of the Fayetteville Police Department’s Timekeeping and Payroll Processes<sup>1</sup>. The City disbursed \$40.1 million for Police Department salaries and benefits in fiscal year 2019, which represents approximately 83% of its annual expenditures. This audit was essential due to the many changes within the Police Department’s timekeeping and payroll processes.

**\$40.1 million (83%) in salaries and benefits of total expenditures for fiscal year 2019**

Additionally, the audit was important since tracking employee’s time can increase productivity, provide transparency, and support the City in complying with the Fair Labor Standards Act (FLSA) along with assisting in efficiencies. As a final point, if the City is unable to track time accurately, the City will be in violation of FLSA regulations, incorrect payment of wages to employees are inevitable and legal proceedings against the City are possible.

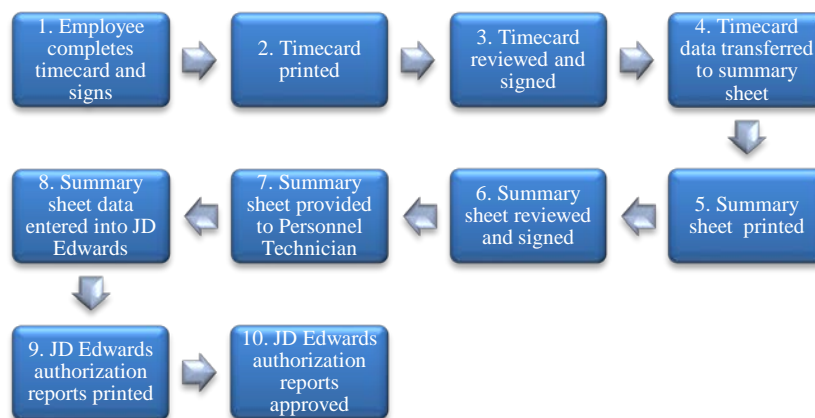
The City of Fayetteville operates on a bi-weekly pay schedule, whereas, the pay period begins on Monday, and closes on Sunday, two weeks later. Payroll prepared by the Police Department consists of one employee who processes the bi-weekly payroll for approximately 520<sup>2</sup> employees. Payroll processing is very time sensitive; Police Department personnel have a very short timeframe to process employee timecards, correct errors, review and approve, and before submitting to the Finance Department Payroll Division for payment processing through JD Edwards, the City’s financial system.



An electronic timekeeping system, Kronos, was implemented for all City Departments during fiscal year 2016, except for the public safety departments. The Police Department uses a manual paper timekeeping system to track time, but standardization of forms and practices followed by Police Department personnel were developed internally and did not clearly capture all time worked. (Finding 2)

Based on Internal Audit’s observations, the current timekeeping process within the Police Department created an environment of confusion and duplication of work. Internal Audit noted incorrect wages paid to employees due to the use of the summary sheet which also caused inefficiencies, lack of timecard accountability and could unnecessarily delay the completion of the payroll process. (Finding 1)

Figure 1: Current Manual Timekeeping Process for Non-Exempt Personnel (Sworn & Non-Sworn)



<sup>1</sup> Police Department’s E-911 timekeeping and payroll processes, to include the 64 budgeted FTE’s, were not included in the audit. However, Internal Audit advises management to implement the recommendations for findings 1, 2, 4 and 8 for E-911.

<sup>2</sup> Based on 541.5 budgeted FTE’s with a 4% vacancy rate.

Steps 1 through 8 were repeated when a revised timecard was needed requiring rework. Summary sheets were due to the Personnel Technician for payroll preparation on the Monday following the end of the pay period. Therefore, timecards were required to be completed and submitted to supervisors before all scheduled work hours were completed. Any deviation from the scheduled hours would need to be submitted on a revised timecard and timely submitted for payroll processing in the pay period the hours were worked. (Finding 3)

Timecards requiring revisions were a common trend during the audit period for on-call personnel, whereas, submitting time worked before the end of the workweek did not reflect potential hours worked outside of the employees scheduled work hours. Based on Internal Audit inquiry and observations, most timecards were submitted to supervisors on Thursdays, as revisions to timecards were generally for hours worked from Friday to Sunday. (Finding 3)

FLSA Section 207 (k) allows public agencies to pay overtime after the officers have exceeded 171 hours in a 28-day period. However, if timecard revisions were not submitted and processed within the correct 28-day FLSA period, incorrect payments of FLSA 207 (k) overtime to law enforcement (sworn/non-exempt) personnel were noted. (Finding 3)

Internal Audit's evaluation over the timekeeping and payroll processes indicated JD Edwards payroll authorization reports were not reviewed to the payroll source documents<sup>3</sup> to ensure accurate and complete processing, whereas, keying errors were noted causing wages paid to personnel to be incorrect. (Finding 4)

The FLSA established regulations for payroll record keeping and compensating non-exempt employees for all time worked. Written departmental operating procedures did not have sufficient controls for accountability or were not in compliance with applicable regulations. (Finding 5)

Departmental procedures did not provide guidance to employees and supervisors that outlines the circumstances in which personnel are allowed to work overtime versus earning compensatory time. Additionally, guidance on documenting supervisory approval on timecards was not noted, resulting in inconsistent payment of overtime versus compensatory time earned. (Finding 5)

City personnel involved in the Police Department's payroll process lacked a thorough understanding of applicable guidelines<sup>4</sup>. Without proper training, payroll data cannot be relied on and the City risks noncompliance with the FLSA. Additionally, failure to track time accurately can lead to personnel being paid inaccurately and create re-work which impacts efficiencies. (Finding 6)

Due to a schedule change for patrol officers, inconsistent tracking of time worked caused FLSA violations. The FLSA guidelines allow law enforcement personnel to follow a 28-day period; therefore, their time can be entered into JD Edwards on a 2-week basis versus a 1-week basis to streamline and improve the efficiency of the process. However, payroll continued to be processed on a weekly basis causing confusion which ultimately caused wages paid to personnel to be incorrect. (Finding 7)

Although the FLSA requires the City to maintain records for non-exempt employees, exempt personnel are not required to track time worked. However, formal processes were not in place to ensure all leave taken was reported. Leave used but not reported is hard to detect/uncover and is a financial loss to the City. (Finding 8)

Internal Audit noted the Police Department is the largest department within the City with 541.50<sup>5</sup> full time-equivalents (33%) of the 1,635 full-time equivalents budgeted for fiscal year 2019-2020 for all City personnel. Furthermore, payroll is the Police Department's largest expenditure with budgeted fiscal year

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<sup>3</sup> "A source document is an original record which contains the detail that supports or substantiates a transaction that will be (or has been) entered in an accounting system." A timecard supports the issuance of a paycheck or electronic payment to an employee. Source: [www.accountingcoach.com](http://www.accountingcoach.com)

<sup>4</sup> Federal and State regulations, City policies, procedures and manuals, and Departmental directives and procedures.

<sup>5</sup> Total does not include over hire positions.

2019-2020 Police Department personnel costs of \$41.3 million (82%) of the total Police Department budget of \$50.2 million, these totals exclude E-911.

This report addresses control weaknesses within the timekeeping and payroll processes that negatively impacted the control environment. As a result, eight findings were noted. For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

1. A manual timekeeping process was used which included unnecessary work; ultimately caused payroll errors and impacted timekeeping records.
2. Paper timekeeping forms lacked clarity causing payroll processing errors.
3. Processing hours worked in the incorrect 28-day FLSA period caused errors in pay.
4. Payroll authorization reports from JD Edwards were not reviewed to timecards.
5. Payroll departmental operating procedures required updating to ensure FLSA compliance and clear guidance for all personnel.
6. Comprehensive training was not provided to personnel involved in the timekeeping and payroll process.
7. Processing timecards for law enforcement personnel on a 2-week basis would improve efficiency.
8. There was no assurance exempt personnel were reporting leave time.

Internal Audit determined internal controls related to the Police Department timekeeping and payroll processes lacked an efficient review process and clearly written departmental operating procedures. The audit did not find evidence of intentional fraud. However due to these internal control deficiencies, Internal Audit could not ensure fraud, waste and abuse did not exist.

### ***BACKGROUND***

Within each City department, an employee is responsible for preparing the department's payroll and ensuring time worked by employees is submitted accurately to the City's Finance Department Payroll Division. To fulfill this responsibility, the Police Department Personnel Technician is tasked to prepare payroll records involving the calculation of compensation and overtime for departmental personnel to include entering all time worked for departmental personnel into JD Edwards. The position also acts as the point of contact for the Payroll Division regarding the Department's payroll data.

The City of Fayetteville operates on a bi-weekly pay schedule with a scheduled pay day of every other Friday which may be adjusted for holidays. The bi-weekly pay period ends on a Sunday, and the Police Department's payroll authorization reports are due to the Payroll Division by noon on the Tuesday following the end of the pay period which may be adjusted for holidays. Once the information has been submitted by the Police Department, the Payroll Division processes the payroll data for all City personnel and applies the information to the City's general ledger.

An electronic timekeeping system, Kronos, was implemented for all City Departments during fiscal year 2016, except for the public safety departments. Kronos is in the process of being implemented for the Police Department, but in the meantime, the Police Department continues to use manual timekeeping and payroll processes.

The Police Department experienced changes within the timekeeping and payroll processes beginning in January 2019. These changes consisted of the implementation of schedule changes for patrol officers. The schedules implemented consisted of 12 hour shifts which included 24 hours scheduled 1-week and 60 hours scheduled the next week for a total of 84 hours in a pay period. Due to the new schedules, a 2-week timecard was created to reflect this 2-week rotation. This change only impacted patrol officers, whereas, all other Police Department personnel used a 1-week timecard. However, the due date for timecards changed to the Monday following the end of each pay period for patrol personnel and every Thursday for all other Department personnel.

In February 2019, the Police Department also experienced staff turnover in the Personnel Technician position which processed the Police Department's payroll. Due in part to this personnel change, the Police Department introduced summary sheets to the timekeeping process to streamline the payroll process. This process required each unit to compile the information from the timecards onto a summary sheet for the unit which was used for payroll entry. This meant the Personnel Technician would process payroll by entering hours worked for employees into JD Edwards, the City's Financial System, from summary sheets and not timecards.

### ***AUDIT OBJECTIVES***

The objectives of this audit were to determine if:

- Time and attendance information agreed with appropriately approved and authorized supporting documentation; including determination if supporting documentation allows for appropriate audit trail;
- Individual and overall time approval were appropriate;
- Payroll changes were appropriately supported, authorized, and verified;
- Hours paid agreed with the supporting documentation; and
- Compensation was in accordance with relevant laws, regulations, guidelines, policies and procedures.

### ***AUDIT SCOPE***

The scope of the audit included Police Department payroll expenditures from January 1, 2019 to November 26, 2019. Internal Audit reviewed the payroll expenditures for 97 (18%) of 534 Police Department personnel who had used vacation accrual from January 1, 2019 to August 30, 2019. The sample was selected based on the vacation accrual due to a test performed which required reviewing leave balances. Additionally, three 28-day FLSA periods (six pay periods) were initially selected to test the hours paid, to include FLSA overtime for non-exempt sworn personnel, agreed to the timecards of the 97 employees sampled.

Due to the exceptions noted when testing the payroll for the 97 Department personnel in the original sample, Internal Audit selected an additional sample of 51 (10%) personnel. The sample was selected from a JD Edwards report of 513 department personnel as of October 21, 2019. The most current 28-day FLSA period ending date at the time of the audit of November 26, 2019 was reviewed to determine if processes had improved. These samples excluded Police Department E-911 personnel.

### ***AUDIT METHODOLOGY***

In order to accomplish the objectives of the audit, the Office of Internal Audit performed, but were not limited to, the following:

- Interviewed personnel from the Police, Finance and Human Resource Development Department and the City Attorney's Office;
- Reviewed the Police Department's Operating Procedures 10.2 – Personnel and Payroll, City of Fayetteville Human Resource Development Compensation/Classification Manual, City of Fayetteville Payroll Policies & Procedures Manual, City of Fayetteville Municipal Code of Ordinances, Code of Federal Regulations, Fair Labor Standards Act (FLSA) and any other applicable memorandums or directives related to Police Department payroll for compliance;
- Compared timecards and summary sheets to JD Edwards, the City's Financial System;
- Reviewed any additional documentation maintained related to payroll expenditures; and
- Considered risk of fraud, waste and abuse.

## **MANAGEMENT'S ACCEPTANCE OF RISK**

According to the Government Auditing Standards, Internal Audit is required to provide additional explanation when the auditors disagree with management's response.

Government Auditing Standards state: "When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement."

Therefore, to ensure adherence to the Government Auditing Standards, and to provide clarity, and ensure management and the reader have all necessary information, Internal Audit provided additional explanation relating to the management responses in findings #1, 4, 5, 6 and 7.

Although, the Office of Internal Audit strives to make valuable recommendations for which management will implement processes to address, there may be instances for which management has decided to accept the risks associated with not implementing a recommendation.

### **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES**

#### **Finding 1**

***A manual timekeeping process was used which included unnecessary work; ultimately caused payroll errors and impacted timekeeping records.***

*Criteria:* The FLSA does not regulate how to track time but does require employers to keep time records for personnel which reflects the hours worked on a daily basis. This information can only be located on the original paper timecards and court vouchers.

Additionally, manually entering and re-entering information is a time-consuming process and the risk of human error exists. Automated timekeeping technology can reduce the costs and human error. However, until an automated timekeeping system can be implemented, manual processes should be streamlined to reduce unnecessary manual work which would in turn reduce the risk of human errors.

The rate of  
**Error** due to  
Summary  
Sheets causing  
employees to  
be paid  
incorrectly was  
**9.4%**

*Condition:* Processing payroll for potentially 520<sup>2</sup> employees required personnel to manually capture time worked on paper timecards which supervisors summarized on paper summary sheets. The summary sheets were used to enter time into JD Edwards by the Personnel Technician. This change in process meant supervisors within each unit were re-entering time from timecards onto summary sheets, and the Personnel Technician no longer received and used timecards for entering data into JD Edwards, only summary sheets.

Manual data entry can create inaccurate data, and based on review of eight pay periods (four 28-day FLSA periods), Internal Audit identified errors of time paid and FLSA overtime paid due to transferring the information from the timecard to the summary sheet.

Timecards and court vouchers are the source documents for the Police Department's payroll processing and are required to be properly maintained in accordance with FLSA guidelines. However, not all source documents requested were provided.

Based on Internal Audit inquiry, the Finance Department had recommended keying directly from timecards into JD Edwards and eliminating the summary sheets, whereas, this may help with the numerous errors that had been occurring.

*Cause:* The Police Department manually processed paper timecards for potentially 520<sup>2</sup> employees; whereas, the electronic time and attendance system, Kronos, had not been implemented for the public safety departments. Additionally, in February 2019 the Police Department had turnover in the position who prepared the Police Department payroll, the Personnel Technician, and an alternate employee had not been trained on the manual payroll processes which brought to light the need to streamline the process by implementing summary sheets to aid in entering the data into JD Edwards for payroll processing.

Upon implementation of the summary sheets, the Police Department discontinued the practice of turning all timecards into the Personnel Technician. However, this created an environment where time could be entered onto a summary sheet that did not match the hours indicated on the reviewed and approved timecards, and time worked could also be entered onto a summary sheet without a timecard.

*Effect:* The American Payroll Association<sup>6</sup> (APA) estimates the rate of human error to be between 1% and 8% of total payroll due to traditional timecard preparation. Furthermore, the multiple forms required for timekeeping processing means a higher risk of human error that could result in payroll to be processed incorrectly and require a significant amount of re-work to correct the errors, ultimately resulting in wasted labor hours. Since manual data entry from paper based methods can be costly and impact productivity, reducing the forms required to be completed should increase the productivity in other tasks.

### **Recommendation**

The Office of Internal Audit recommends the Police Department, to include E-911, consult with the Finance Department on streamlining the manual timekeeping and payroll processes, to include eliminating the summary sheets and use timecards to enter the time and attendance into JD Edwards, with the end goal of moving towards implementing an automated time and attendance system.

### **Management's Response:**

We partially concur. Management is in agreement with a portion of the recommendation. Management worked with the Finance Department and obtained an updated timecard and proposed training to be provided to the police department by the end of August 2020. Management agreed with the streamlined process for payroll and the importance of accountability and oversight needed to ensure accurate and timekeeping of personnel. Management has direct the payroll technician to enter the time into JD Edwards from the employee's timecard but will continue to have supervisory personnel complete a summary sheet based. The completion of the summary sheet is also aligned with the recommendations from the Finance Department and the Audit Department to having a checklist of multiple items for supervisors to review on the timecards prior to being submitted for entry into JD Edwards. The ultimate goal of having minimal errors and within the timeline needed for the Finance Department to process payroll. The city has started the implementation of the automated time and attendance system for the police department and this has a starting timeline of September 2020.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2020

The rate of Human Error in Timecard preparation is between 1% and 8% total payroll

<sup>6</sup> <https://www.business2community.com/human-resources/payroll-errors-cost-money-fix-01906305>



### **Internal Audit Response:**

Management partially agreed with Internal Audits recommendation, whereas, they will discontinue using the summary sheet to enter time and attendance into JD Edwards, however, they consider the summary sheet as a means of supervisor oversight and accountability and will continue to use in that capacity. Internal Audit does not consider manually transferring payroll information from a timecard to the summary sheet a checklist for reviewing payroll. Continuing to manually create summary sheets is a time-consuming process and the risk of human error should be considered if using for supervisory oversight and accountability to ensure timecards are correct. Internal Audit continues to recommend using original source documents (timecards). In addition, supervisors do not have sufficient time between week ending and payroll processing to manually transfer data to summary sheets. To complete the process timely, there is a risk of requiring timecards to be submitted to supervisors early preventing employees from properly recording all hours worked.

Although payroll is indisputably complicated, the processes don't have to be according to the American Payroll Association<sup>7</sup> (APA); the APA recommends keeping payroll processes simple which creates efficiency and reduces the risk for error. The audit concluded a 9.4% rate of error due to summary sheets causing employee wages to be paid incorrectly. Internal audit recommends the source document, timecards, be clarified and used to provide supervisory accountability. If there is a need for further documentation, JD Edwards reporting following payroll processing should be considered. Therefore, by continuing the requirement of summary sheets, Police Department management accepts the risks associated to include: human error in manually transferring data from time cards preventing the goal of supervisor oversight and accountability, and a risk of employees turning timecards in early to allow sufficient time for summary sheet creation resulting in miscalculated employee wages and potential Department of Labor violations.

### **Finding 2**

***Paper timekeeping forms lacked clarity causing payroll processing errors.***

***Criteria:*** Standardized timekeeping forms should be used that have the ability to calculate hours based on procedures, and sufficiently capture all time worked to include court time, compensatory time and overtime earned, and any leave taken. Employee and supervisor signatures, to include date signed, should be required.

***Condition:*** The paper timecards and summary sheets utilized by Police Department personnel were not clear on the type of pay being requested (i.e. paid overtime versus compensation accrued). In addition, these forms did not calculate all the hours. Instead, personnel used the remarks section which could be overlooked or overstate/understate totals hours for the week due to these hours not being included in the total hour's calculation.

***Cause:*** The Police Department created timecards and summary sheets without guidance from the Finance Department Payroll Division.

Furthermore, timecards and summary sheets were not dated and did not indicate if it was revised; therefore, when multiple timecards and summaries were provided, Internal Audit was not able to validate what timecard should have been used to pay the employee.

***Effect:*** A manual, paper-based, timekeeping process increases the risk of personnel fraudulently recording time without a proper supervisory review. In addition, the risk of payroll errors is increased when the timecards do not capture and calculate all time worked correctly.

### **Recommendation**

The Office of Internal Audit recommends management, to include E-911:

1. Require employee and supervisor signatures, and dates signed on all timekeeping forms; and

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<sup>7</sup> <https://www.americanpayroll.org/news-resources/apa-news/news-detail/2019/10/31/7-best-practices-tips-to-streamline-processes-avoid-errors>

2. Consult with the Finance Department to create department-wide standardized timekeeping forms that at a minimum capture all time worked to include court time, compensatory time and overtime earned, scheduled hours and leave taken. This change will ensure consistency of documentation supporting timekeeping within the department. If the department deviates from approved standardized timekeeping forms, authorization should be obtained from the Finance Department.

**Management's Response:**

We concur. Management is in full agreement with the recommendation. The Finance Department created an updated timecard and training should be implemented by the end of August 2020.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2020

**Finding 3**

***Processing hours worked in the incorrect 28-day FLSA period caused errors in pay.***

*Criteria:* Timecards should be submitted and processed after all hours have been worked for the pay period. However, if a revised timecard is required, revised hours should be entered in the FLSA 28-day period that the hours were worked. If a revised timecard is required and the revised hours cannot be entered in the FLSA 28-day period the hours were worked, then the revised hours must be processed in a way that will not affect the current 28-day period and will accurately reflect any FLSA 207 (k) overtime payment for the 28-day period the hours were worked.

*Condition:* Timecards requiring revisions were a common trend during the audit period for on-call personnel, whereas, submitting time worked was required to be completed before the end of the workweek and did not reflect potential hours worked outside of the employees scheduled work hours. Based on Internal Audit inquiry and observations, most timecards were submitted to supervisors on Thursdays, as revisions to timecards were generally for hours worked from Friday to Sunday.

Revised timecards with work hours not submitted and processed within the correct FLSA period often resulted in incorrect payments of FLSA 207 (k) overtime to law enforcement personnel (sworn/non-exempt).

*Cause:* Summary sheets were due to the Personnel Technician for payroll preparation on the Monday following the end of the pay period. Therefore, timecards were required to be completed and submitted to supervisors before all scheduled work hours were completed. Any deviation from the scheduled hours would need to be submitted on a revised timecard and timely submitted for payroll processing in the pay period the hours were worked.

FLSA allows public employers to base overtime eligibility for law enforcement personnel on a 28-day period rather than a 40-hour workweek. Personnel engaged in law enforcement activities should receive compensation at the overtime rate after working 171 hours over a 28-day period. The established process was for sworn/non-exempt personnel to enter prior period work hours in the current 28-day period without consideration for whether this would cause incorrect payments of FLSA 207 (k) overtime. Based on Internal Audit inquiry, Finance Department personnel were not aware the current process for making prior period revisions was causing FLSA 207 (k) overtime payment errors.

*Effect:* These prior period work hours resulted in incorrect payment of FLSA 207 (k) overtime to employees.

**Recommendation**

The Office of Internal Audit recommends management:

1. Require timecards be submitted only after all hours have been worked for the pay period; and

2. Coordinate with the Finance Department to implement a process that will ensure FLSA 207 (k) overtime is paid correctly for all prior period work hours.

**Management’s Response:**

We concur. Management is in full agreement with the recommendation. Management changed the submission due dates of all timecards in the first quarter of 2020 when issues were presented. Although there may be more corrections due to call-in or incidents when personnel have to come in after the time has been forwarded to the payroll technician, every effort will be made to submit time and not project time. The police department has been working with the I.T. Department and the Finance Department on the implementation of the automated time and attendance system in order to make this recommendation work efficiently. Management has coordinated with the Finance Department and the Finance Department has advised they are working on implementing a process to ensure corrections for prior period work are accurate and in accordance with the 207 (k) rule. The police department is unable to ensure the FLSA 207 (k) is implement but have already discussed this with Finance.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2020

**Finding 4**

***Payroll authorization reports from JD Edwards were not reviewed to timecards.***

Criteria: The timekeeping and payroll process should start with employees completing timecards for the recent two week period and submitting for supervisory approval. Most often approval is performed by the employee’s immediate supervisor. The approved hard copy of the timecard is then provided to the Personnel Technician for the time worked to be entered into JD Edwards. Following the input of all payroll entries into JD Edwards a review should be completed, including comparing the JD Edwards payroll authorization reports to the payroll source documents, timecards, by personnel independent of the payroll process to verify accurate and complete processing.

Condition: Internal Audit’s evaluation over the timekeeping and payroll processes indicated the JD Edwards payroll authorization reports were not reviewed to the payroll source documents to ensure accurate and complete processing which resulted in keying errors causing wages paid to personnel to be incorrect.

57 time entry Errors within 6 pay periods were not identified due to improper Departmental review

Based on Internal Audit inquiry, time entry errors were found by the Finance Department when summary sheets were reviewed to JD Edwards data. The Finance Department provided a recommendation that stated, “Creation of reconciliation/review process to make sure the information is accurate”.

Additionally, Police Department Procedure, Personnel and Payroll 10.2 stated, “Upon completion of the payroll authorization the Personnel Technician will submit the payroll authorization to the Chief of Police, Assistant Chiefs or another designated Commander for review and signature.” However, this written procedure does not address the payroll authorization reports should be reviewed against the

payroll source documents.

Cause: The Police Department did not have personnel with the expertise in business processes and internal controls to assist in developing, implementing and evaluating the necessary payroll controls to improve efficiency and ensure compliance with applicable laws.

Effect: Without proper internal controls of consistently reviewing the payroll authorization reports to the source documents for accuracy, employees’ wages could be paid incorrectly.

### **Recommendation**

The Police Department, to include E-911, should ensure a qualified independent employee, with a complete understanding of payroll, consistently review, every payroll period, all JD Edward payroll authorization reports back to the source documents (timecards) before payroll is submitted to the Finance Department Payroll Division for processing. Operating Procedure 10.2 Personnel and Payroll should be updated accordingly.

### **Management's Response:**

We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved. The department has existing personnel which have been trained and will continue to be trained on all aspects of FLSA and the City of Fayetteville Payroll Process as it is changing. The department will also ensure the supervisory staff receive training on the existing topics which has not been provided in the past. Management believe errors stem from education of all staff and will first have to depend on the training from Finance before we can determine who the secondary "independent" employee with all the qualifications listed above will be. The other issue with the recommendation is the ability to have the review completed "before payroll is submitted to the Finance Department Payroll Division for processing" will not provide the payroll technician the needed time to enter from the actual 600 timecards approximately within the allotted deadline for the Finance Department. The operational time needed for entries already required between 10-12 hours of data entry. The department will update our operating procedures after all changes once we have received the approved timecards and processes from the Finance Department on procedures and documented processes which will be made.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2020

### **Internal Audit Response:**

Although management concurred with Internal Audit's recommendation with reservations, the Police Department is not implementing Internal Audit's recommendation. Based on management's response, payroll deadlines prevent the Police Department from performing a review before payroll is submitted for processing as recommended. However, management should consider requiring administrative staff, who with proper training, could provide assistance every other Monday to assist with reviewing payroll documents. The recommendation provided is an essential preventative control that should be implemented. Therefore, by not implementing Internal Audit's recommendation, Police Department management accepts the risk associated, which include incorrect processing of payroll, employee wages miscalculated and paid incorrectly, and potential Department of Labor violations.

### **Finding 5**

***Payroll departmental operating procedures required updating to ensure FLSA compliance and clear guidance for all personnel.***

#### **Criteria:**

1. The FLSA established requirements for payroll record keeping and compensating non-exempt employees for all time worked.
  - a. The FLSA does not regulate how to track employee time but does require employers to keep time records for employees, to include documents that reflect hours worked on a daily basis.
  - b. Additionally, the FLSA provides principles which apply in determining whether time spent in travel is compensable time. However, all time worked when attending required training is considered hours worked for non-exempt employees.
2. Supervisory approvals are one of the most critical overtime controls as it helps to ensure that overtime pay requested are hours worked by the employee. Police Department Operating Procedures 10.2, Personnel and Payroll stated, "All overtime must be approved by a supervisor."

3. According to the Government Accountability Office's Standard for Internal Control, management should periodically review policies and procedures to ensure they remain relevant.

Condition:

1. Written departmental operating procedures were not in compliance with FLSA regulations in the following areas:
  - a. "Time Entry Procedure" section 10.2.1 of Police Department Operating Procedures 10.2, Personnel and Payroll, stated, "Timecards, court vouchers and corrected timesheets will all be archived in Laserfiche." However, the operating procedures did not designate accountability for maintaining the original timekeeping and payroll records, or for ensuring all records were archived, which resulted in the inability to locate timecards and court vouchers.
  - b. "School/Training and Development" section 10.2.16 of Police Department Operating Procedures 10.2, Personnel and Payroll, implied employees were only allowed to be paid 8 hours per day or 40 hours per week for training regardless of the number of hours spent in training. However, under the FLSA, training time that did not meet specific criteria was considered hours worked, and the employee should be compensated for all hours spent in training, not just 8 hours per day or 40 hours per week. In addition, the operating procedure placed restrictions on compensation for travel based on the driving time. However, employees should be compensated for any travel time which met the FLSA principles regardless of driving time.
2. Police Department Operating Procedures 10.2, Personnel and Payroll did not provide guidance on what method supervisory approvals should be documented. Due to an inconsistent approval process, Internal Audit could not determine if employees earned compensatory time or paid overtime.
3. The Police Department's Personnel and Payroll operating procedure was last updated in 2018 and no longer reflects current procedures for earning compensatory time.

Cause:

Updates to the payroll procedures were not reviewed by subject matter experts in the Finance, Human Resource Development and Legal departments, to ensure compliance with Federal regulations.

Timecards were maintained within the respective bureau to be stored and archived, and not in a centralized location where a review for completeness could be conducted which created an inability to locate the requested documentation.

Unclear and incomplete written departmental procedures created inconsistent practices.

Effect:

1. With procedures not in compliance with FLSA regulations, potential violations of these Federal regulations could occur.
2. Without a central repository for timekeeping and payroll records, it is difficult and time consuming to review and research details of time worked.
3. Without having clear written departmental operating procedures in place that provides formal direction and guidance on specific overtime practices, abuse could occur. If the approval of overtime is left to the supervisor's discretion, employees may not have an equal opportunity for overtime payment or compensatory accrual.
4. Updated procedures help an organization retain institutional knowledge and facilitate consistency; however, when procedures do not reflect current practices an organization does not fully receive these benefits. Codifying these procedures further obligates the employee and provides the department a clearer avenue for recourse if procedures are not followed.

**Recommendation**

The Office of Internal Audit recommends management:

1. Establish a central recordkeeping location for all payroll related records and identify departmental position(s) responsible to ensure payroll records are complete and archived.

2. Review all current written departmental operating procedures related to Personnel and Payroll with the Human Resource Development Department and the City Attorney's Office to ensure compliance with the FLSA.
3. Document an approval process for overtime within the departmental operating procedures, to include a consideration for equitable treatment of overtime.
4. Update departmental operating procedures to align with current practices, to include criteria for when overtime is allowed versus earning compensatory time.

**Management's Response:**

We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved. Management concurs with item #1 and have already uploaded previous years and template the timesheets into laserfiche. This process is being completed after all time has been entered for a pay period but before the next pay period starts by Office Assistants. For Item #2, Management will have the Police Attorney review all operating procedures related to payroll once the Finance Department has completed the updated timecards and their procedures and documented processes and ensure they align with the City of Fayetteville Policies. We will then provide the information for Human Resource Development Department for review. Management will consult with the City Manager and Human Resources regarding items #3 and #4 in order to determine if this recommendation should be a part of the City Policy in order to ensure equitable treatment of overtime, even though the sworn personnel is on the 7(k) Rule. There may be an infinite number of scenarios in which working over a prescheduled day could apply and not be considered overtime. Based on the previous response with training on FLSA 207 (k) and other FLSA to supervisory staff, the existing FLSA 207 (K) rule is clear and covers all situations when someone can be paid compensatory time versus overtime and does not need to be included in departmental operational procedures.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: October 1, 2020

**Internal Audit Response:**

FLSA 207(k) exemption allows public agencies to pay overtime at a rate of time and one-half after non-exempt sworn personnel have exceeded 171 hours in a 28-day period; it does not define the approval process for accruing compensatory time versus paying overtime. The City of Fayetteville embraces many merit principles, including fair treatment, but without clearly documented procedures, personnel may not experience the same opportunity to earn paid overtime versus accruing compensatory time. Therefore, if documented procedures are not established, Police Department management is accepting the risk of potential overtime abuse, unfair treatment and inconsistencies when earning paid overtime versus accruing compensatory time.

The Police Department's Personnel and Payroll operating procedure was last updated in 2018 and no longer reflects current procedures, to include earning compensatory time. Clearly written departmental operating procedures provide institutional knowledge, formal direction and guidance, and consistent practices. Current operating procedures put restrictions on accruing and using compensatory time for both Sworn and Non-Sworn Personnel. Therefore, if operating procedures are not updated, Police Department management is accepting the risk of departmental personnel unable to follow current guidelines for compensatory time.

**Finding 6**

***Comprehensive training was not provided to personnel involved in the timekeeping and payroll process.***

***Criteria:*** Training personnel associated with reviewing and processing payroll should not only include how to enter time, and pulling associated payroll and leave reports using JD Edwards, but training should also emphasize how to calculate and ensure time reported is accurate, and enforce all applicable guidelines<sup>4</sup>. Additionally, due to the complex payroll processes and the expertise needed to ensure internal controls are

maintained within the process, the Personnel Technician position should report to a position with necessary experience and knowledge.

*Condition:* City personnel involved in the Police Department's payroll process lacked a thorough understanding of all applicable guidelines<sup>4</sup>.

In addition, when new timekeeping forms were implemented, clear procedures were not established to ensure hours worked were clearly and consistently entered into JD Edwards. Without clear and consistent written procedures in place, Police Department personnel could not be adequately trained on the new processes. This combined with the fact that the payroll process is an essential function and the Department did not have an alternate employee cross trained on processing the entire Department's payroll, created an environment where errors were inevitable.

**Error Rates**  
during Employee  
Transition Period  
**9.3%** keying  
errors  
**26.7%** unable to  
audit - lack of  
valid  
documentation

*Cause:* The Personnel Technician was considered to be 'data entry' only and entered time from summary sheets and not the source documents, timecards. In addition, the Personnel Technician was not supervised by a position with expertise in FLSA compliance related to timekeeping and payroll to be able to review and provide guidance to the Personnel Technician to ensure personnel were being paid correctly.

*Effect:* Without proper training, payroll data cannot be relied on and the City risks noncompliance with the FLSA. Additionally, failure to track time accurately can lead to personnel being paid inaccurately and create re-work which impacts efficiencies.

### **Recommendation**

The Office of Internal Audit recommends:

#### **Police Department:**

1. Management consider creating and hiring an accounting manager position with the expertise in business processes and internal controls to oversee the Personnel Technician position and assist in developing, implementing and evaluating the necessary payroll controls to improve efficiency and ensure compliance with applicable guidelines<sup>4</sup>. Although additional personnel is costly, the City could be fined for FLSA violations and due to the Department's payroll expenditures for Fiscal year ending 2019 of \$40.1 million, the fines could be costly.
2. Management needs to ensure the Personnel Technician and an alternate employee are thoroughly trained and have a clear understanding of all applicable guidelines<sup>4</sup>.

#### **Finance Department:**

1. Management should coordinate with the Human Resource Development Department to develop comprehensive timekeeping and payroll training. The training should include applicable FLSA regulations, City policy and procedure manuals, and how to process time and attendance for payroll purposes.
2. Management should ensure all payroll preparer and reviewers take training developed prior to assuming the respective duties and should be required to take a refresher training annually.
3. Management should coordinate with the Human Resources Development Department to provide the Police Department training on timekeeping and FLSA 207 (k) overtime. Training for new employees should be a part of on-boarding and provided by a qualified employee.
4. Management should designate funding for the payroll supervisor to obtain a Payroll Certification and allow the payroll supervisor to obtain this certification.

### **Management's Response:**

#### **Police Department:**

We concur with reservation. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved. The police department has

submitted a new initiative for a position which will cover more than just the recommendation listed as an accounting manager but cannot control if this position will be approved. The position will ensure the business aspect of the police department has continuity for long term overall efficiency. Management has requested Finance provide training for any and all employees who have access to JDE before the receive approval rights into the system. Once this training has occurred management will determine who would be the possible alternate employee. This training should include a documented manual for the training for the employee to reference.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: December 1, 2020

**Finance Department:**

1. We concur. Management is in full agreement with the recommendation. It should be the priority of the City to provide up-to-date and timely training especially in payroll processing. Training will help ensure best practices and procedures.
2. We concur. Management is in full agreement with the recommendation. Finance will work with the departments as new payroll preparers are brought on-line to ensure the preparers have initial training. Furthermore a refresher course will be created and disseminated in an efficient manner.
3. We concur. Management is in full agreement with the recommendation. Finance will collaborate with HRD to provide training on timekeeping and FLSA 207 (k) overtime and an on-boarding process to train new employees.
4. We concur. Management is in full agreement with the recommendation. Finance will look at the budgeting process to earmark funds for certification.

Responsible Party: Jay Toland, Chief Financial Officer

Implementation Date: December 1, 2020

**Internal Audit Response:**

Internal Audit recognizes that the Police Department is required to follow an approval process when creating new positions which includes availability of funding. However, the payroll technician position currently reports to a position held by a Police Major, whose expertise primarily lies in law enforcement and not FMLA compliance (payroll and timekeeping). Without having proper oversight of payroll by an employee with the expertise in applicable payroll guidelines, to include internal controls, Police Department management is accepting the risk of potential FLSA violations.

**Finding 7**

***Processing timecards for law enforcement personnel on a 2-week basis would improve efficiency.***

**Criteria:** FLSA guidelines allow law enforcement personnel to follow a 28-day period; therefore, their time can be entered into JD Edwards on a 2-week basis instead of a 1-week basis to improve the efficiency of the process and the Department's ability to manage overtime more effectively. However, time worked for non-exempt/non-sworn personnel should be maintained on weekly timecards and entered on a 1-week basis.

**Condition:** Payroll was processed every 2-weeks into JD Edwards but was recorded on a weekly basis, and overtime hours were reflected as if each week of the 2-week pay period was independent of the other. Prior to the conclusion of the 2-week pay period, officers recorded regular overtime on timecards for working beyond normal scheduled hours for backfilling, special events or attending training. However, when the officer did not work their scheduled hours due to flexing or using leave time during the pay period, and their timecard still reflected previously recorded overtime, it caused confusion when processing the timecard.



Cause: In January 2019, patrol officers' schedules changed to 12 hour shifts with 24 hours scheduled one week and 60 hours scheduled the next week, for a total of 84 hours in a pay period. With this schedule change the patrol officers began using 2-week timecards. This change in schedules caused confusion about how the time should be entered into JD Edwards; whereas, with the previous schedules 40 hours was entered for each week in the 2-week pay period. However, with the new schedules entering 40 hours per workweek did not accurately reflect what was actually worked.

Effect: Inconsistent tracking of time worked caused FLSA violations; whereas, incorrect wages paid to employees were identified and hours input into JD Edwards did not match the hours indicated on the timecard.

### **Recommendation**

The Office of Internal Audit recommends management collaborate with the Finance Department on the current timekeeping and payroll processes to improve the efficiency which should reduce the errors of employee wages and ensure hours worked are accurately and consistently documented in JD Edwards as reflected on timecards. However, time worked for non-exempt/non-sworn personnel should be maintained on weekly timecards and entered on a 1-week basis.

### **Management's Response:**

We partially concur. Management is in agreement with a portion of the recommendation. As previously mentioned Finance created updated timecard and will be providing training. Management does not agree with non-sworn timecards entering time on a 1 week basis. The supervisory staff who will be approving the timecards will be trained on the process and will need a consistent training manual to review for all personnel. The updated timecards provided by Finance calculate time appropriately based on sworn or non-sworn personnel. The automated system will also have time submitted for on a bi-weekly basis for approval.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: September 1, 2020

### **Internal Audit Response:**

The City of Fayetteville operates on a bi-weekly pay schedule where the pay period begins on Monday and closes on Sunday, two weeks later. Time is tracked and approved based on a 40-hour work week for all non-sworn personnel. Therefore, time worked for non-exempt/non-sworn personnel should be maintained on weekly timecards and entered on a 1-week basis as these individuals do not fall under the 207(k) exemption of the Fair Labor Standards Act (FLSA). The FLSA requirements for paid overtime are calculated based on hours worked over 40 in a workweek and must be paid at a rate of time and one-half their regular rate of pay. Therefore, if non-exempt/non-sworn personnel move to a two-week timecard and bi-weekly payroll entry, Police Department management is accepting the risk of miscalculating hours worked, overtime and leave time.

### **Finding 8**

*There was no assurance exempt personnel were reporting leave time.*

Criteria: For personnel not required to track time worked, formal processes should be implemented to ensure all leave taken is reported.

Condition: Exempt departmental personnel were required to complete a timecard only when leave time was taken. However, requested leave time (sick, vacation, holiday or comp time) was not consistently documented on timecards or summary sheets. Additionally, the Department did not have a formal leave request process.

Cause: Although it was not required by the FLSA, a Police Department directive stated exempt personnel were to record leave time on a timecard. However, this directive was not incorporated into the Department's written departmental operating procedures, and there appeared to be no accountability to ensure the directive was followed.

Effect: Leave used but not reported is hard to detect/uncover and is a financial loss to the City.

**Recommendation**

The Office of Internal Audit recommends the Police Department, to include E-911, consult with the Human Resources Department on a formal leave request process to ensure leave time is reported. Although an automated time and attendance is being implemented, consequences for non-compliance should be clearly defined in written departmental operating procedures.

**Management's Response:**

We concur. Management is in full agreement with the recommendation. Management will consult with the Human Resource Department to obtain how all other City of Fayetteville departments which are not on an automated system submit their formal leave request. In the meantime the department has already created a formal leave request form and ensure it is included in the department's operational process and coincides with City Policy.

Responsible Party: Chief Gina V. Hawkins

Implementation Date: June 1, 2020

***CONCLUSION***

Internal Audit has concluded work on the audit of the Police Department's payroll. Since a paper timekeeping process has to be used until the electronic timekeeping system can be implemented, the Police Department payroll process needs to be updated and streamlined to ensure Police Department personnel are paid accurately and timely. In order to accomplish this, the Police Department needs to collaborate with the Finance and Human Resource Development Departments and the City Attorney's Office on any timekeeping and payroll process changes to ensure all applicable guidelines<sup>4</sup> are followed. In addition, personnel involved in the timekeeping and payroll process should be thoroughly trained on all applicable guidelines<sup>4</sup> related to the process to include the FLSA.

Although the management responses are included in the audit report, Internal Audit does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective actions.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

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