



Office of Internal Audit

**Compliance Audit 2021-04
Changes to Employee Pay**

April 2022

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

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Changes to Employee Pay Highlights

Objective:

To determine if adjustments to employee base pay were properly approved, accurately calculated, processed timely and adequately supported.

Scope:

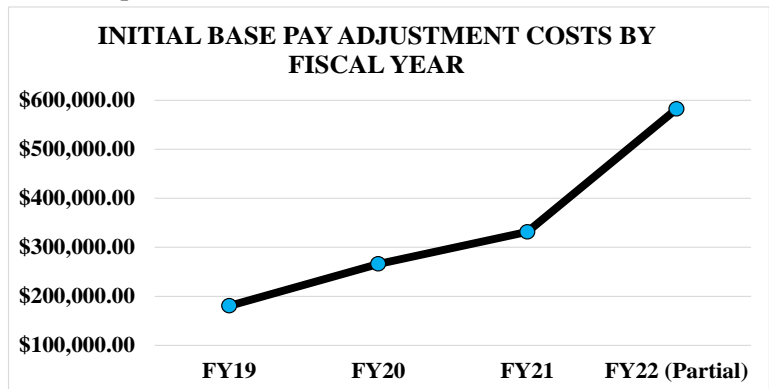
- Sample included 56 base pay adjustments (9%) from July 1, 2018 through December 31, 2021; and
- Excluded pay adjustments budgeted in the annual budget adopted by City Council.

Background:

- Additional base pay adjustments were requested by department management for specific employees.
- 50% of special pay adjustments sampled were to address market and internal inequity.
- By only adjusting base pay for specific employees, inequities for the same pay grade or position in other departments were not addressed.

Highlights:

- 636 approved base pay adjustments not associated with pay plan changes or performance increases adopted in the annual budget:
 - 117 adjustments for temporarily assuming higher level duties; and
 - 519 additional adjustments, totaling \$1.36 million, as depicted below.



**FY22 only reflects six months*

- Base pay adjustments could be reduced by addressing the disproportion between the market rate and the rate paid to current City employees.

Conclusion:

No significant findings were noted.

The following improvement opportunities were identified:

- Clarify guidelines to reduce varying interpretations; and
- Consider reviewing the pay adjustment reasons and change codes to ensure coding is consistent as the City transitions to the HUB, the City's new enterprise resource planning system.

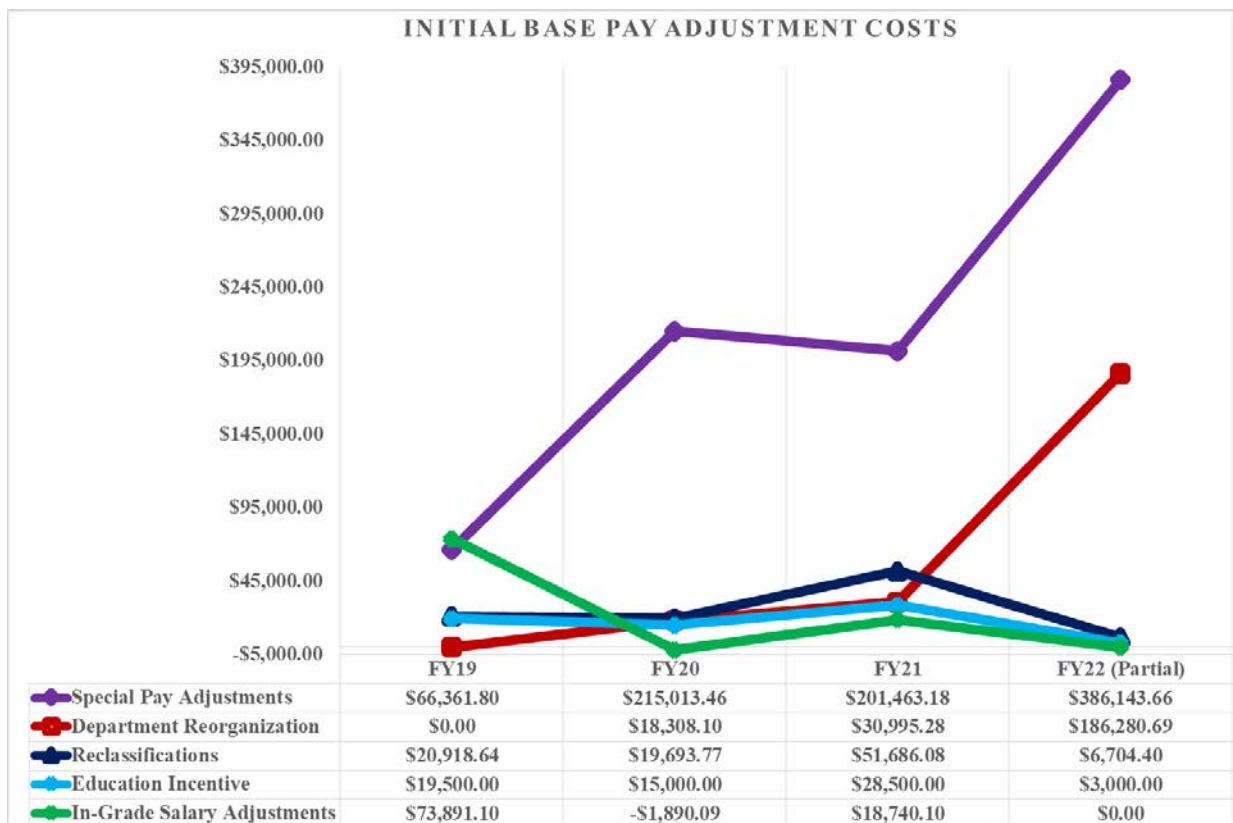
BACKGROUND

The City’s pay plan established base pay. When changes to the pay plan and performance increases were adopted in the annual budget ordinance, base pay adjustments were needed to bring employees to the new pay grade minimums and to incorporate the approved performance increases.

A total of 636 additional base pay adjustments occurred from July 1, 2018 to December 31, 2021 as a result of requests initiated by department management. Requests included:

- Temporary assignment pay for temporarily assuming higher level duties and responsibilities;
- Public safety education incentives for obtaining associate and bachelor degrees;
- Position reclassification to adjust a position to reflect current job duties and responsibilities;
- Position changes and/or updates due to department reorganizations;
- Adjustments due to obtaining certifications, and
- Special pay adjustments. Reasons for special pay adjustments included but were not limited to: permanent addition of duties; sustained superior performance; market and internal equity, and retention and counter offer.

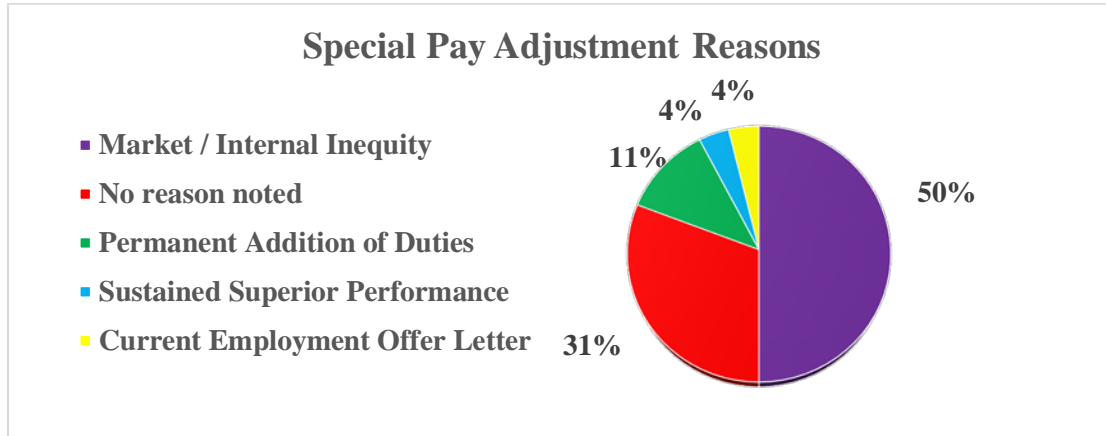
Of the 636 adjustments, 117 were for temporary assignment pay. The remaining 519 base pay adjustments totaled \$1.36 million in initial adjustment costs. This amount reflects the difference between the salaries prior to and after the adjustments. The chart below represents the amounts and types of the 519 adjustments based on the coding in JD Edwards, the City’s current enterprise resource planning.¹



**FY22 only reflects six months but the other fiscal years reflect 12 months.*

¹ Internal Audit noted inconsistencies in the adjustment change and reason coding within JD Edwards. Without reviewing the documentation for each adjustment, Internal Audit could not determine if the adjustments were in the correct categories for the purpose of this chart.

As depicted in the chart above, 63% of the pay adjustments were coded as a special pay adjustment. The chart below shows 50% of the special pay adjustments sampled were requested to address market and internal inequity.



Market and internal inequity can occur due to pay compression. This happens when the market rate outpaces the pay increases given by the City. In some cases, compression can cause current employees to be paid less than new employees, who require to be paid at market rates to fill open positions. To combat this compression, the audit revealed some departments, with the ability and willingness, request special pay adjustments.

These base pay adjustments are granted for specific employees and do not address the pay of others within the same pay grade or in similar jobs within the City. These pay increases may create inequities between City departments.

Addressing pay compression could reduce the need for base pay adjustments. The fiscal year 2021-2022 adopted budget included \$150,000 for an employee pay study. The pay study is in progress; therefore, Internal Audit could not determine if the pay study will address existing pay compression.

AUDIT OBJECTIVES

The objective of the audit was to determine if adjustments to employee base pay were properly approved, accurately calculated, processed timely and adequately supported.

AUDIT SCOPE

The scope of the audit included 56 (9%) of 636 base pay adjustments from July 1, 2018 through December 31, 2021. This audit did not include pay adjustments approved by City Council through the adoption of the annual budget or associated with the recruitment and selection process.

AUDIT METHODOLOGY

To review compliance, Internal Audit:

- Reviewed applicable written policies, procedures, and guidelines;
- Interviewed Human Resource Development Department personnel;
- Reviewed employee information in JD Edwards to include basic demographic information, salaries and additional information necessary to meet audit objectives;
- Reviewed employee changes notices and any additional documentation related to changes in employee pay, and
- Considered the risk of fraud, waste and abuse.

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

Based on audit work performed, base pay adjustments were performed in compliance with City guidelines. No significant exceptions were noted.

CONCLUSION

Internal Audit has concluded work on the audit of changes to employee pay. Based upon test work performed, Internal Audit concluded controls were sufficient for base pay adjustments to be properly approved, accurately calculated, processed timely and adequately supported.

Although not considered findings but not to be overlooked, Internal Audit identified the following opportunities for improvement:

- Guidelines could be clarified to reduce the potential for varying interpretations.
- As the City transitions to the HUB, the City's new enterprise resource planning system, management should consider reviewing the pay adjustment reasons and change codes to ensure coding is consistent and only codes necessary are carried forward into the new system.

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

Distribution:

Audit Committee

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