



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

Aaron Cook
City Auditor

Cristina Preciado
Deputy City Auditor

Ashley Willis
Senior Internal Auditor

Michael Nickelsburg
Internal Auditor

Project Number

1240047

This report can be made available in alternate format upon request.

Public Works Department Payroll and Leave Processing

August 20, 2024

Report Highlights

Payroll Processing

Overall, the Public Works Human Resources Payroll Section processed Payroll accurately and timely. Staff is improving the exception pay form filing system to ensure all documents are retained according to the City's retention schedule.

***City Auditor Department
140 N 3rd Avenue Phoenix, AZ 85003
602-262-6641 (TTY use 7-1-1)***

Executive Summary

Purpose

Our purpose was to review payroll processing for merit increases, overtime, differential, and one-time incentives for the Public Works Department (Public Works) Solid Waste Division (Solid Waste).

Background

Human Resources Department (HR) staff assigned to Public Works are responsible for various payroll processing functions, including merit increases, exception pay, and incentive pay. The Public Works Human Resources Section (Payroll) staff use eCHRIS, the City's payroll processing system, to track salary review dates, process one-time pay incentives, and adjust employees' regular pay for overtime, holidays, and shift differentials.

We reviewed City ordinances and policies and interviewed Payroll staff to understand their payroll processes. Additionally, we reviewed the temporary Commercial Driver's License (CDL) Incentive Pay approved by the City in November 2022 to identify eligibility criteria. We tested merit increases, exception pay, and CDL Incentives to verify transactions were processed timely and accurately.

Results in Brief

Employee merit increases were processed timely.

We tested 195 Solid Waste employees due for merit increases between March 2023 and March 2024. Eight employees had overdue merit increases as of June 12, 2024, due to leaves of absence. Payroll processed the remaining 187 merit increases promptly.

Physical exception pay forms matched recent exception pay transactions, but some older forms could not be located.

We tested exception pay forms from 90 Solid Waste employees to ensure the transactions were recorded accurately. We matched 67 of the 90 (74%) physical exception pay forms to eCHRIS records. Payroll staff could not find the remaining 23 exception pay forms. The missing forms were dated before staff implemented a new filing process in December 2023.

Most employees eligible for the CDL Incentive Pay received their increase on time.

We identified 152 Solid Waste employees eligible for the CDL Incentive Pay as of November 27, 2022. Payroll identified and corrected wages for 19 employees who did not receive the CDL Incentive Pay timely. We identified an additional employee who appeared eligible but did not receive the Incentive Pay. Payroll is working with the

Class and Compensation division to determine if the employee was eligible for the Incentive Pay.

Department Responses to Recommendations

Rec. # 3.1: Work with Class and Compensation to determine if the employee identified was entitled to the CDL Incentive Pay and ensure they are compensated if eligible.	
Response: The CDL incentive pay was effective 12/11/22. The identified employee's CDL was suspended from 11/13/22 – 1/31/23. The department is working with Class and Comp to determine if the suspension disqualified the employee, or if he is eligible for the incentive pay from 1/31/23 – 8/7/23. If the employee is eligible, the department will ensure payment.	<u>Target Date:</u> 11/15/24
Rec. # 3.2: Create written, well-defined policies and procedures for data entry to ensure that employee information, such as license numbers and valid dates, are maintained and updated appropriately.	
Response: The department will create and/or update written policies and procedures to ensure accuracy in data entry of employee information. The department will ensure information is properly maintained and updated as needed.	<u>Target Date:</u> 11/15/24

1 – Merit Increases

Background

City Ordinance S-49802 Section 10, *Merit Increases*, states that employees become eligible to be considered for a merit pay increase on each salary review date until they have advanced to the maximum step in their pay grade. Employees' salary review dates are stored in eCHRIS. Payroll staff can generate merit increase eligibility reports to ensure that employees receive their merit increases timely.

We interviewed Payroll staff, reviewed City ordinances, and tested Solid Waste employees eligible for merit increases between March 2023 and March 2024 to determine whether payroll staff processed the transactions timely.

Results

Employee merit increases were processed timely.

Payroll staff said they run bi-weekly reports to identify employees eligible for merit increases during the pay period. We tested 195 Solid Waste employees due for merit increases between March 2023 and March 2024. Eight merit increases were not processed within 30 days of the due date because the employees were on extended leaves of absence. When the employees return, their merit increase dates will be reset.

Recommendation

None

2 – Exception Pay Processing

Background

Employees complete exception pay forms when they work outside of their regular schedules. Their supervisors must sign the forms indicating the employee worked the time recorded and is entitled to the pay requested. Supervisors send the signed forms to Payroll staff for processing. Payroll staff adjust employees' regular base pay on an exception basis for overtime, shift differentials, holidays, and incentive pay. Payroll staff manually input the approved exceptions into eCHRIS to adjust the employee's regular base pay for that pay period.

Payroll staff process all exception forms on the Monday before payday Friday. Staff review the forms to ensure they are complete, accurate, and comply with City policies. Payroll staff notes the appropriate pay codes on the hard copy forms, inputs the exceptions in eCHRIS, and files the forms. Citywide retention schedules require that all payroll records, including exception pay forms, be retained for five years after the fiscal year they were created.

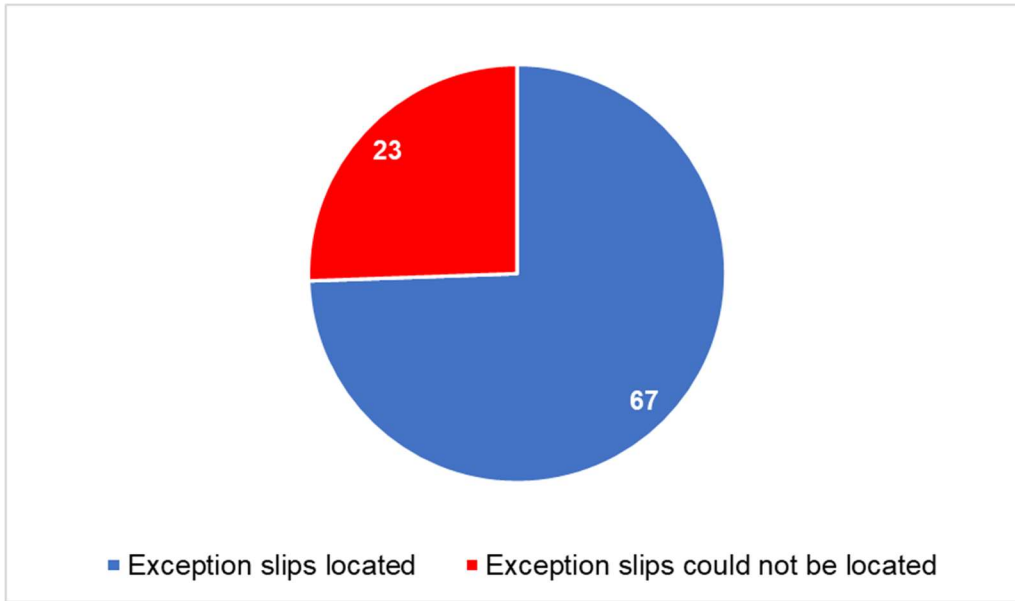
We interviewed Payroll staff to understand processes for reviewing and processing exception pay. We obtained a master payroll download from eCHRIS for all Public Works Solid Waste employees, including regular and exception pay. Our testing included overtime, holiday, and shift-differential exception pay transactions. We compared a sample of exception pay transactions for eight pay periods between March 19, 2023, and March 17, 2024, to exception pay slips to ensure the information was recorded accurately.

Results

Physical exception pay forms were found to match recent exception transactions, but some older slips could not be located.

We selected 90 employees from Solid Waste and tested exception pay forms against recorded transactions for accuracy.

Exception Form Record Keeping



Public Works could not locate 23 exception pay forms (25%).

Before September 2023, the physical forms were not organized and were stored in boxes or stacks. Payroll staff now organize exception forms alphabetically by employee name and pay period.

The inability to find older exception forms would make correcting potential payroll disputes much more difficult. In addition, the citywide record retention schedule states that all payroll records must be retained for five years.

Most of the tested exception pay transactions were entered and processed correctly.

We selected 90 employees' exception pay transactions between March 19, 2023, and March 17, 2024, to verify that they were supported and entered accurately. We also selected 50 exception pay forms to confirm the transactions were entered accurately. Of the 182 transactions reviewed, 179 (98%) were entered accurately. The three discrepancies identified were minor and immaterial, with two potential underpayments totaling \$54.09 and one potential overpayment of \$23.87.

Recommendation

None

3 – Incentive Pay Increases

Background

On November 28, 2022, the City began a temporary incentive program for Commercial Drivers License (CDL) positions, offering all employees in CDL positions that maintained their CDL an additional \$3.00 per hour (CDL Incentive Pay). The pay started on the December 11, 2022, pay period. It continued until the Class and Compensation Study was implemented in August 2023, at which time the City factored the CDL Incentive Pay into employees' new hourly rates.

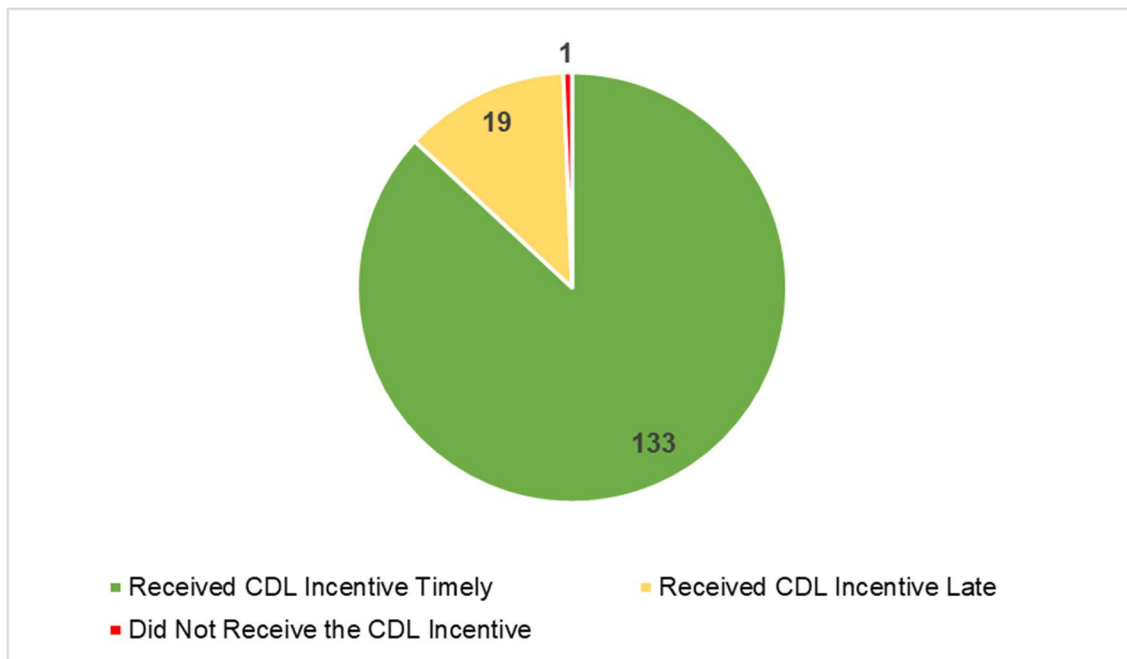
We identified Solid Waste positions eligible for CDL Incentive Pay. We tested the payroll data of eligible employees to ensure they received the CDL Incentive Pay timely.

Results

Most employees eligible for the CDL Incentive Pay received their increase timely.

Employees needed a current CDL and to be in an eligible position as of November 27, 2022, to receive the CDL Incentive Pay. We identified three CDL designated Solid Waste positions with 153 employees eligible for the CDL Incentive Pay.

CDL Incentive Timeliness



One hundred thirty-three employees (87%) received CDL incentive Pay timely.

One hundred thirty-three employees received their CDL Incentive Pay timely. Payroll identified and corrected wages for 19 employees who did not receive the CDL Incentive Pay timely. We identified an additional employee who appeared eligible but did not receive the Incentive Pay. Payroll is working with the Class and Compensation division to determine if the employee was eligible for the Incentive Pay.

HR staff created a program to automatically apply the CDL Incentive Pay to all employees in designated CDL positions with valid CDL license information in eCHRIS. However, staff stated that CDL information, such as valid dates, was not always entered or updated, causing some employees not to receive their CDL Incentive Pay. Payroll manually updated CDL information for 70 employees whose CDL data was incorrect in eCHRIS. Payroll staff did not have written policies or procedures for entering and maintaining employee data, such as CDL license information.

Recommendations

- 3.1 Work with Class and Compensation to determine if the employee identified was entitled to the CDL Incentive Pay and ensure they are compensated if eligible.
- 3.2 Create written, well-defined policies and procedures for data entry to ensure that employee information, such as license numbers and valid dates, are maintained and updated appropriately.

Scope, Methods, and Standards

Scope

We evaluated payroll functions provided by the Human Resources Payroll staff assigned to the Public Works Department. We reviewed procedures for processing merit increases, exception pay, and one-time pay increases. We analyzed merit increases due to Solid Waste Division employees between March 2023 and March 2024 to verify they were processed promptly. In addition, we tested exception pay slips for Solid Waste employees for eight pay periods between March 2023 and March 2024 to ensure that they were processed accurately. We also identified Solid Waste employees eligible for a one-time CDL pay increase to determine whether all eligible employees received the incentive.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
 - Management should implement control activities through policies.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
 - Management should remediate identified internal control deficiencies on a timely basis.

Methods

We used the following methods to complete this audit:

- Interviewed Public Works Staff.
- Reviewed Public Works policies and procedures.
- Tested exception pay slips.
- Tested eChris Performance Management Guide (PMG) reports.
- Tested one-time CDL pay increases.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The eChris data was previously determined to be reliable through an independent audit review.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.