

**OFFICE OF THE CITY CONTROLLER**



**PLANNING AND DEVELOPMENT 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

October 2, 2003

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

SUBJECT: Planning and Development Department-Payroll Policies and Procedures Audit  
(Report No. 03-19)

Dear Mayor Brown:

In accordance with the City's contract with Mir•Fox & Rodriguez, P.C. (MFRPC), MFRPC has completed an audit of the Planning and Development Department's (PL&D) 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 PL&D has adequate internal control systems pertaining to overtime and compensatory time and PL&D was in compliance with the applicable federal, state and local laws. However, internal controls could be strengthened by improving the accounting for the transfer of checks and advices from the department to each of the divisions. 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  
Sara Culbreth, Acting Chief Administrative Officer  
Stephen Tinnermon, Chief of Staff, Mayor's Office  
Robert Litke, Director, Planning and Development Department  
Philip Scheps, Ph.D., Director, Finance and Administration Department

September 10, 2003

Honorable Judy Gray Johnson, City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> 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) Planning and Development Department (PL&D). 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 authentic City employees.

Honorable Judy G. Johnson, City Controller  
September 10, 2003  
Page 2

The scope of the PL&D City-Wide Payroll Policies and Procedures Audit included assessing the policies and procedures for administering and documenting payroll pertaining to PL&D, during 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 PL&D. As a result, MFRPC selected two divisions within PL&D for detailed review. The two divisions selected were the Code Enforcement (CEF) and Neighborhood Protection Divisions. 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 CEF's payroll check (check) and direct deposit payment advice (advice) distribution process for the May 23, 2003 payroll.

Our procedures were performed through June 6, 2003 and have not been updated since then.

Based upon the results of our review, PL&D has adequate internal control systems pertaining to overtime and compensatory time and PL&D was in compliance with the applicable Federal, state and local laws. However, internal controls could be strengthened by improving the accounting for the transfer of checks and advices from the department to each of the divisions.

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  
Page 3

Mir•Fox & Rodriquez, P.C. is pleased to have assisted you with this project and we appreciate the assistance and cooperation of the Planning and Development Department, 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.

David Ahola  
Principal, Internal Audit Services

DA/jh

**CITY OF HOUSTON**

**Payroll Policies and Procedures Audit – Planning and Development Department**

**June 6, 2003**

## **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 AHRS within the payroll period the overtime was worked.

PL&D has approximately 600 employees in four divisions. Their payroll for June 1, 2001 through December 31, 2002 was approximately \$40 million. Overtime for the audit period June 1, 2001 through December 31, 2002 was approximately \$589,000. The total overtime amount was for worked performed by the Code Enforcement Division. Overtime costs for the 50 top earners totaled \$382,954. The total amount earned per employee ranged from approximately \$2,915 to \$25,045 for the audit period. Compensatory time earned was an insignificant amount.

## **Accountability for Checks and Advices Transferred to the Divisions**

Currently, the check and advice distribution process begins with a PL&D messenger picking up all of the payroll checks and advices for PL&D from the Financial and Technical Services Division of the Controller's Office at City Hall. The PL&D messenger arrives around 3 PM on Thursday at the Operations Division and signs for receipt of PL&D's checks and advices. The PL&D messenger delivers the checks and advices to the Management Services Division at 611 Walker. The checks are sorted by division. The divisions that are located in other buildings send a messenger to pick up their checks and advices. Once the divisions receive their checks, they sort them by reporting manager. The checks and advices are distributed to the employees on Friday.

We selected CEF for observation of their physical distribution of checks and advices. CEF has approximately 269 employees in 11 locations. We verified the employees' identification and witnessed them signing for receipt of their payroll checks/advices. We were able to properly verify that 260 employees within ten locations were valid City employees. The employees at a satellite location were not included in the review of the check and advise distribution.

### **Finding and Recommendation**

#### Finding

During the check distribution review, MFRPC observed that PL&D did not require the divisions to properly account for and then assume responsibility for the physical payroll checks and advices. In addition, during our observation of CEF's distribution process, we noted that the managers picking up their checks from the payroll area were not required to sign for their employee's checks/advices. Also, the managers did not appear to verify that they were receiving all of their checks. Since there is no documentation supporting the transfer of the asset between the department and the divisions, there is a potential risk to the City that a payroll check or advice could be lost, misplaced, or stolen and PL&D would be unable to detect it. Basic accounting principles dictate that whenever accountability for cash or cash like items is transferred from one person to another, the asset must be clearly identified, accountability determined and receipted.

#### Recommendation

PL&D should design a form and develop procedures that will adequately record the transfer of responsibility/accountability for the payroll checks and advices to the divisions when they are picked-up for distribution.

If the 3 PM pick up time does not provide adequate time to properly account for the checks and advices, PL&D should meet with the Financial and Technical Services Division of the Controller's Office to discuss the possibility of receiving their checks and advices earlier than 3 PM on Thursday. This would allow ample time during regular business hours to properly account for all checks and advices.



Since the distribution of payroll checks and advices requires a considerable amount of physical labor and related delivery costs, the City should consider alternate methods to the processing and distribution of checks and advices. For example with today's technological solutions the City could continue promoting direct deposit and make the corresponding advices available on the internet. Such a solution would allow the City employees to continue to be productive in their jobs without any interruption.

# EXHIBIT I




## CITY OF HOUSTON

Planning & Development  
Department

## Interoffice

Correspondence

To: Judy Gray Johnson, City Controller

From: Robert M. Litke, Director 

Date: August 5, 2003

Subject: **City-Wide Payroll Policies and  
Procedures Audit**

The firm of Mir Fox & Rodriguez, P.C. (MFRPC), conducted an audit of our department payroll policies and procedures. We have reviewed the draft report and the following is our response to the recommendation from MFRPC:

### Recommendation

PLD should design a form and develop procedures that will adequately record the transfer of responsibility/accountability for the payroll checks and advices to the divisions when they are picked-up for distribution.

If the 3 PM pick up time does not provide adequate time to properly account for the checks and advices, PL&D should meet with the Treasury Division of the Controller's Office to discuss the possibility of receiving their checks and advices earlier than 3 PM on Thursday. This would allow ample time during regular business hours to properly account for all checks and advices.

### Response:

Payroll checks/advices are made available in the Controller's Office for distribution to the departments at 3:00 pm on the Thursday before payday. The Planning and Development Department has three (3) locations to deliver checks/advices to make distribution to employees the following morning. We have estimated the time required to document every transfer of the checks/advices from pick-up in the Controller's Office to delivery to the employee, would be six (6) hours and a total of 25.50 man hours. This would not be possible given the current time constraints. Further, the additional documentation required for this chain of custody would create more work and paper to a process that MFRPC referred to in their report as "labor intensive" and "requires a considerable amount of physical labor and related delivery costs".

We would, however, suggest an alternate procedure that accomplishes the same objective of accounting for all the checks and advices given the time the checks/advices are available for pick-up. To document the support of the checks and advices between

**Views of Responsible  
Officials**

## **EXHIBIT I**

Page 2

the department and the divisions and verify the recipients of the checks and advices are legitimate department employees, payroll staff would verify each check/advise against the current department roster. The checks/advices would be counted prior to the messenger leaving the Controller's Office to verify receipt of the number of checks that were picked up. The checks would be delivered to payroll staff at each location and the number of checks would be accounted for again in the presence of the deliverer by the payroll staff before the verification process begins. Additionally, we feel if there was a check/advise for a fictitious employee or an employee who was otherwise not entitled to compensation, we would identify the discrepancy during our verification process, prior to the check/advices being distributed to the employees.

We appreciate your office coordinating this audit and providing an opportunity for our department and the City to improve the payroll process. If you have any questions or need additional information, you may contact Brian Sedberry at 7-7948.

RML:BS:MW:wcm

***Views of Responsible  
Officials***