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Audit Report

**AUDIT OF CITY OF DALLAS' CIVILIAN
TIMEKEEPING INTERNAL CONTROLS AND
PROCESSES**

(Report No. A15-011)

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City Auditor

Craig D. Kinton

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Executive Summary

During Fiscal Year (FY) 2013, certain civilian timekeeping internal controls and processes for the City of Dallas (City) were not adequate or reliable. Specifically:

- 1) The timekeeping records associated with an estimated 24 percent of 175,000 bi-weekly pay periods¹ do not show a documented record of approval by supervisors prior to payroll processing as required by Administrative Directive 3-56, *Payroll Processing and Procedures*. As a result:
 - An estimated \$37 million in civilian employees' salaries and wages were paid based on timekeeping records that had not been approved.
 - An additional \$23 million² was paid based on timekeeping records that lacked any record of approval.
 - Seventy-seven City employees did not have any approved timekeeping records in each of the 26 pay periods even though in some instances they had exceptions

Background Summary

City employees use two software applications, the INFOR Lawson Human Resources Information System (Lawson) and Kronos, to record absences and time worked.

Lawson

Exempt employees use Lawson to record work time on an exception basis. An employee's normally scheduled work hours are pre-set in Lawson and do not require time information to be manually entered (positive entry), reviewed, or approved. Employees are only required to record their exceptions (i.e. absences or extra time worked beyond normally scheduled hours).

Kronos

Non-exempt employees are required to record the time they start and end scheduled work shifts by either swiping a timecard or entering their employee number. The in/out times are saved in the Kronos timekeeping system. Employee supervisors record all absences.

Lawson is configured to process the timekeeping records from both applications on a bi-weekly basis and pay employees' salaries and wages regardless of whether time is entered or approved. The City selected this Lawson configuration to avoid unnecessary payment delay of salaries and wages.

Source: City Administrative Directives, City Staff

¹ City employees are paid bi-weekly or 26 pay periods per calendar year. The calculation of total pay periods reflects the total number of civilian employees paid in FY 2013 multiplied by the number of pay periods worked by each employee.

² This amount was paid to City employees in 11,769 pay periods with no exceptions (see textbox). These pay periods and the associated electronic records were not designated in Lawson as "Approved" with a status code of "2" or "7". City management stated they consider these 11,769 pay periods approved even though prior to June 2013, when City management started to require that exempt employees enter a specific Lawson code "NEXT" (i.e., "No exceptions in the entire pay period"), there was no record within Lawson for the supervisory review and approval of pay periods with no exceptions.

- Four employees took numerous days off, but did not record any absences in Lawson.
- The Department of Human Resources (HR) and the City Controller’s Office (CCO) performed an estimated total of 7,139 manual payroll corrections, or about 275, per pay period. The opportunity costs associated with identifying, researching, and performing these error corrections is an estimated \$113,000 per fiscal year³.

The absence of adequate supervisory review and approval of timekeeping records increases the risk that time and attendance information is not complete, accurate, valid, and in compliance with applicable legal requirements. Because Lawson is configured to generate an employee paycheck whether or not bi-weekly time and attendance information is actually entered and/or approved, the risk is also increased that employees could continue to receive paychecks when they are not actually present and working. This risk is substantially increased when appropriate controls are not in place as discussed throughout this report.

- 2) The count of approved timekeeping records⁴ in Lawson does not reflect the City’s stated bi-weekly pay period approval practice. According to this practice, supervisors who approve employee timekeeping records in Lawson are assumed to have verified and approved all timekeeping records in a bi-weekly pay period. For example, in FY 2013, supervisors were assumed to have verified and approved approximately 924,000 records, or 70 percent. The actual count of Lawson timekeeping records with an “Approved” status of “2” or “7” was only 515,000 or 39 percent, for this period. As a result, it is not clear that supervisors are actually verifying and approving all days in the bi-weekly pay period instead of limiting the review only to the exceptions entered by employees.
- 3) The user IDs of the supervisors who approved 87,564 bi-weekly pay periods in Lawson were overwritten with the CCO Payroll Manager’s ID. The auditors were unable to test if the estimated 46,042 approved Kronos pay periods were approved by users authorized to perform the approval function because the City did not preserve a list of FY 2013 designated approvers in a readily retrievable format. As a result, the audit trail of who actually approved the timekeeping records is not available.

³ The auditor estimated that it takes forty minutes for HR and CCO to identify, research, and correct a payroll error. Therefore in FY 2013, approximately \$113,000 of employee time was used performing payroll corrections (4,762 hours multiplied by the average hourly rate of \$23.78 per hour for HR and CCO employees).

⁴ For the purpose of this analysis, a Lawson entry is considered a record. Therefore, if an employee worked four hours and took four hours of sick leave on the same day Lawson creates two records.

- 4) Lawson and Kronos do not have input controls to prevent City employees from entering paid leave (vacation, sick, compensatory, attendance incentive) durations longer than their available earned paid leave balances. As a result, during payroll processing, HR and CCO must identify and correct these errors to reduce the risk of improper salary and wage payments and/or fraud.
- 5) Manual payroll adjustment procedures are not properly segregated. The CCO Payroll Manager can: (1) authorize manual payroll adjustments; (2) perform some of the manual adjustments; (3) review manual adjustments made by other CCO Payroll staff; and, (4) approve all payroll transactions. Audit analysis of the FY 2013 payroll data showed 2,508 of 7,139 payroll adjustments, or 35 percent, were performed by the CCO Payroll Manager. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed.

According to the Director of HR and the City Controller, in FY 2013, they recognized the need to improve certain payroll adjustment procedures by segregating duties between the two departments. As a result, starting on October 1, 2014, the responsibility for payroll adjustments was transferred to HR. The CCO staff now only performs manual payroll entries for terminated employees. Segregating duties divides the responsibility for authorizing, recording, and approving payroll transactions; however, this internal control improvement does not fully address the segregation of duties issues discussed in this report.

- 6) The City does not have a reasonable way of verifying what type of paid leave was appropriate for each employee absence. Without proper controls in place, the City cannot ensure consistent compliance with City Personnel Rules. Implementing effective controls, however, is challenging. To overcome these challenges, other organizations, including cities, have used a Paid Time-Off (PTO) program to simplify leave administration.

Paid Time-Off Program

A Paid Time-Off Program (PTO) combines the four leave categories. Employees receive a cumulative number of paid days off each year to use as they wish for sick days, vacation days, and/or other personal time off.

Source: Paid Time-Off Programs and Practices. A 2010 Survey of WorldAtWork Members

- 7) A number of City departments have enacted internal written procedures for timekeeping and attendance that contain paid leave limitations not present in the City’s Personnel Rules. As a result, there is a risk that some City employees may have been denied sick leave and/or vacation leave based on departmental procedures that are inconsistent with the City’s Personnel Rules.

**An Audit Report on –
City of Dallas' Civilian Timekeeping Internal Controls and Processes**

We recommend the City Manager ensures the Director of HR, the City Controller, and the Director of the Department of Communication and Information Services (CIS) improve the accuracy and reliability of civilian timekeeping internal controls and processes by implementing the recommendations made throughout this report.

The audit objective was to assess internal controls and processes to determine the accuracy of the payroll system and the adequacy / reliability of controls. The audit objective was further refined to focus on civilian timekeeping internal controls and processes. The audit scope included payroll transactions processed during FY 2013; however, we also reviewed certain related transactions and records before and after that period.

Management's response to this report is included as Appendix III.

Audit Results

Overall Conclusion

During Fiscal Year (FY) 2013, certain civilian timekeeping internal controls and processes for the City of Dallas (City) were not adequate or reliable. Specifically: (1) the timekeeping records associated with an estimated 24 percent of 175,000 bi-weekly pay periods⁵ do not show a documented record of approval by supervisors prior to payroll processing, as required; (2) the count of approved timekeeping records in INFOR Lawson Human Resources Information System (Lawson) does not reflect the City's stated bi-weekly pay period approval practice; (3) the user IDs of the supervisors who approved 87,564 bi-weekly pay periods in Lawson were overwritten with the City Controller's Office (CCO) Payroll Manager's ID; (4) Lawson and Kronos do not have input controls to prevent City employees from entering paid leave (vacation, sick, compensatory, attendance incentive) durations longer than their available earned paid leave balances; (5) manual payroll adjustment procedures are not properly segregated; (6) the City does not have a reasonable way of verifying what type of paid leave was appropriate for each employee absence; and, (7) a number of City departments have enacted internal written procedures for timekeeping and attendance that contain paid leave limitations not present in the City's Personnel Rules.

⁵ City employees are paid bi-weekly or 26 pay periods per calendar year. The calculation of total pay periods reflects the total number of civilian employees paid in FY 2013 multiplied by the number of pay periods worked by each employee.

Bi-weekly Pay Periods Do Not Consistently Show a Documented Record of Supervisors’ Review and Approval Prior to Payroll Processing

In FY 2013, the timekeeping records associated with an estimated 24 percent of 175,000 bi-weekly pay periods do not show a documented record of approval by supervisors prior to payroll processing as required by Administrative Directive (AD) 3-56, *Payroll Processing and Procedures* (see Table I below).

Table I

Fiscal Year 2013 Approved / Unapproved Bi-weekly Pay Periods

Timekeeping Database	Approved Pay Periods	Approved Percent of Total	Unapproved Pay Periods	Unapproved Percent of Total	Total
Lawson	87,564	86	14,830	14	102,394
Kronos	46,042	76	14,919	24	60,961
Subtotal	133,606	82	29,749	18	163,355
No documented record of approval in Lawson			11,769		11,769
Grand Total	133,606	76	41,518	24	175,124

Source: Lawson and Kronos

As a result:

- Approximately \$37 million in civilian employees’ salaries and wages were paid based on timekeeping records that had not been approved (see Table II on the next page)
- Approximately \$23 million⁶ was paid based on timekeeping records that lacked any record of approval (see Table II on the next page)
- Seventy-seven City employees did not have any approved timekeeping records in each of the 26 pay periods even though in some instances they had exceptions

⁶ This amount was paid to City employees in 11,769 pay periods with no exceptions (see textbox on page one). These pay periods and the associated electronic records were not designated in Lawson as “Approved” with a status code of “2” or “7”. City management stated they consider these 11,769 pay periods approved even though prior to June 2013, when City management started to require that exempt employees enter a specific Lawson code “NEXT” (i.e., “No exceptions in the entire pay period”), there was no record within Lawson for the supervisory review and approval of pay periods with no exceptions.

**An Audit Report on –
City of Dallas’ Civilian Timekeeping Internal Controls and Processes**

- Four employees took numerous days off, but did not record any absences in Lawson. Instead, these employees’ timekeeping records show that they were at work.

Table II

Total Employee Salaries / Wages Paid in Fiscal Year 2013 Based Upon Approved/Unapproved Bi-weekly Timekeeping Pay Periods

Timekeeping Database	Approved	Approved Percent of Total	Unapproved	Unapproved Percent of Total	Total
Lawson	\$158,659,475	91	\$15,228,873	9	\$173,888,348
Kronos	70,929,213	77	21,768,395	23	92,697,608
Subtotal	\$229,588,688	86	\$36,997,268	14	\$266,585,956
No documented record of approval in Lawson			23,273,553		23,273,553
Grand Total	\$229,588,688	79	\$60,270,821	21	\$289,859,509

Source: Lawson and Kronos

The absence of adequate supervisory review and approval of timekeeping records increases the risk that time and attendance information is not complete, accurate, valid, and in compliance with applicable legal requirements. For example, in FY 2013, the Department of Human Resources (HR) and CCO performed an estimated total of 7,139 manual payroll corrections, or about 275 per pay period. The opportunity costs associated with identifying, researching, and performing these corrections is an estimated \$113,000 per fiscal year⁷. Because Lawson is configured to generate an employee paycheck whether or not bi-weekly time and attendance information is actually entered and/or approved, the risk is also increased that employees could continue to receive paychecks when they are not actually present and working. This risk is substantially increased when appropriate controls are not in place as discussed throughout this report.

The AD 3-56, paragraph 6.2.1 states that supervisors are responsible for verifying and approving employee timesheets and/or time records in the automated payroll system each pay period prior to payroll close.

⁷ The auditor estimated that it takes forty minutes for HR and CCO to identify, research, and correct a payroll error. Therefore in FY 2013, approximately \$113,000 of employee time was used performing payroll corrections (4,762 hours multiplied by the average hourly rate of \$23.78 per hour for HR and CCO employees).

Recommendation I

We recommend the City Manager ensures the Director of HR introduces compliance with timekeeping approval requirements as a performance evaluation measure for all City Department Directors.

Recommendation II

We recommend the City Manager ensures the Director of HR:

- Adjusts paid leave balances of the four employees who did not report their absences in FY 2013
- Determines whether or not similar adjustments are needed for other fiscal years

Please see Appendix III for management's response to the recommendation.

Electronic Approval in Lawson Does Not Reflect the City’s Bi-Weekly Pay Period Approval Practice

The count of approved timekeeping records⁸ in Lawson does not reflect the City’s stated bi-weekly pay period approval practice. According to this practice, supervisors who approve employee timekeeping records in Lawson are assumed to have verified and approved all timekeeping records in a bi-weekly pay period. For example, in FY 2013, supervisors were assumed to have verified and approved approximately 924,000 records, or 70 percent. The actual count of Lawson timekeeping records with an “Approved” status of “2” or “7” was approximately 515,000 or 39 percent, for this period (see Table III below).

Table III

**Fiscal Year 2013
 Comparison of the City’s Pay Period Approval Practice and
 Actual Lawson Timekeeping Records**

Timekeeping Records	Approved	Percent	Not approved	Percent	Grand Total
Count per Pay Period Approval Practice	923,773	70	404,899	30	1,328,672
Count per Lawson Timekeeping Records	514,908	39	813,764	61	1,328,672

Source: Lawson

As a result, it is not clear that supervisors are actually verifying and approving all days in the bi-weekly pay period instead of limiting the review only to the exceptions entered by employees. For example:

- Supervisors cannot see regularly scheduled work days on Lawson approval screens because employees do not document regularly scheduled work days
- The supervisors’ approval assigns an electronic approval status only to the exceptions and not to the regularly scheduled work days

To clarify the City’s expectation that supervisors verify and approve the entire bi-weekly pay periods rather than just individual exceptions, on June 12, 2013, HR started to require that exempt employees enter a specific Lawson code “NEXT” (i.e., “No exceptions in the entire pay period”). The NEXT code allows supervisors to review and approve the entire bi-weekly pay period of regular work hours. This new procedure improved the rate of approval in Lawson from 64 to 81 percent;

⁸ For the purpose of this analysis a Lawson entry is considered a record. Therefore, if an employee worked four hours and took four hours of sick leave on the same day Lawson creates two records.

however, this procedure currently applies only to payroll periods that do not have any exceptions recorded.

According to the Government Accountability Office, *Maintaining Effective Control Over Employee Time and Attendance Reporting*, controls over time and attendance information should provide reasonable assurance that such information: (1) is recorded completely, accurately, and as promptly as practicable; (2) relates to authorized individuals; (3) reflects actual work performed and leave taken or other absences during authorized work hours and periods; (4) is sufficiently detailed to allow for verification; (5) complies with legal requirements; and, (6) is supported by recorded evidence of supervisory review and approval. Typically, to achieve these objectives, agencies record and maintain, for each employee and pay period, the following information or documentation: (1) employee name and unique identifying number; (2) pay period number or dates; (3) hours worked; (4) hours of premium pay, by type, and overtime to which the employee was entitled, dates, and number of hours of leave (by type), credit hours, and compensatory hours earned and used; (6) evidence of approval by an authorized official (usually the supervisor); and, (7) supporting documentation or records for absences.

Recommendation III

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of the Department of Communication and Information Services (CIS), require that all Lawson timekeeping entries have a record of supervisory review and approval in line with the City’s practice of approving the entire bi-weekly pay period of timekeeping records. If updating Lawson to create a record of supervisory review and approval for the entire bi-weekly pay period of timekeeping records is not feasible, we recommend this feature be included in the system specifications for future payroll systems.

Please see Appendix III for management’s response to the recommendation.

Employees’ Timekeeping Records Are Overwritten by the CCO Payroll Manager’s ID

The user IDs of the supervisors who approved 87,564 bi-weekly pay periods in Lawson were overwritten with the CCO Payroll Manager’s ID. The auditors were unable to test if the estimated 46,042 approved Kronos pay periods were approved by users authorized to perform the approval function because the City did not preserve a list of FY 2013 designated approvers in a readily retrievable format. (See Table IV below). As a result, the audit trail of who actually approved the timekeeping records is not available.

Table IV

**Kronos and Lawson Fiscal Year 2013
 Timekeeping Approval Status**

Timekeeping Records	Kronos	Percent	Lawson	Percent	Total
Unapproved	14,919	24	26,599	23	41,518
Approved by other supervisors	46,042	76			46,042
Approved, but the approver’s user ID was overwritten by Payroll Manager during payroll processing			87,564	77	87,564
Total	60,961	100	114,163	100	175,124

Source: Lawson and Kronos

According to management, the transfer of timekeeping records during payroll processing results in an “approval” of all timekeeping records by the CCO Payroll Manager and overwrites the original record of approval by the designated supervisor. The absence of the audit trail of who actually approved the timekeeping records combined with the CCO Payroll Manager’s ability to both correct and approve payroll records increases the risk of payroll manipulation and fraud.

According to Federal Information Systems Control Audit Manual (FISCAM), organizations must implement effective authorization controls. Once a user is authenticated, authorization is used to allow or prevent actions by that user based on predefined rules. Authorization includes the principles of:

- Legitimate use, i.e. access should be limited to individuals with a valid business purpose
- Least privilege, i.e. every user must be able to access only the information and resources that are necessary for their legitimate purpose

- Separation of duties, i.e. incompatible tasks and associated privileges for a specific business process should be disseminated among multiple users

Maintaining access rights, permissions, and privileges is one of the most important aspects of administering system security.

Recommendation IV

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for recording and preserving the data field containing the user IDs of the individuals who approved timekeeping records in both Lawson and Kronos.

Recommendation V

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for preserving a list of designated approvers for Lawson and Kronos in a readily retrievable format.

Recommendation VI

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for periodically comparing approver user IDs for Lawson and Kronos to the user IDs of designated approvers to identify unauthorized approvals and take appropriate action.

Recommendation VII

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for payroll processing that will eliminate the need for the CCO Payroll Manager to approve timekeeping records for employees outside of the CCO Payroll Division.

Please see Appendix III for management’s response to the recommendation.

Lawson and Kronos Do Not Have Input Controls to Prevent Paid Leave Errors

Lawson and Kronos do not have input controls to prevent City employees from entering paid leave (vacation, sick, compensatory, attendance incentive) durations longer than their available earned paid leave balances. As a result, during payroll processing, HR and CCO must identify and correct these errors to reduce the risk of improper salary and wage payments and/or fraud. During FY 2013, HR and CCO made 7,139 corrections, of which at least half were related to paid leave entries.

Input Controls

Input controls are used mainly to check the integrity of data entered into a business application, whether the data is entered directly by staff, remotely by a business partner, or through a Web-enabled application or interface. Data input is checked to ensure that it remains within specified parameters.

Source: Institute of Internal Auditors Global Technology Audit Guide (GTAG) 8: Auditing Application Controls

The AD 3-56 requires that:

- Employees enter complete and accurate time records, verify available hours in leave balances prior to entering leave hours, enter complete and accurate leave time, and notify supervisors and HR of any discrepancy regarding pay, leave balances, and hours paid
- Supervisors verify that employees have sufficient leave balances to cover the amount of leave recorded, notify HR of any discrepancies regarding employee payments, be responsible for the accuracy and timeliness of their employees' time records, and make and approve electronic timekeeping records prior to payroll close
- City departments inform all employees of their responsibility to comply with timekeeping procedures, provide training to all employees and supervisors on the appropriate access and use of Lawson, take appropriate action to hold employees accountable for entering complete and accurate personnel and payroll information, and ensure that employees enter appropriate and accurate time records in the City's payroll system

According to FISCAM, inadequate input controls can result in incomplete, inaccurate, and/or invalid records in the application data. Input controls should have checks for accuracy, completeness, validity, and authenticity of information that are accomplished as close to the point of origin as possible. Data input for processing should have all key fields completed and be validated and edited. Error handling procedures should facilitate timely resubmission of corrected data, including real-time on-line edits and validations.

Input data should be validated and edited to provide reasonable assurance that erroneous data are prevented or detected before processing. Application owners and programmers should build application input edits directly into the application to limit the number of errors that are input into the application. Edits are used to help assure that data are complete, accurate, valid, and recorded in the proper format. Edits can include programming to identify and correct invalid field lengths or characters, missing data, incorrect data, or erroneous dates.

Recommendation VIII

We recommend the City Manager ensures the Director of HR, the City Controller, and the Director of CIS introduce a computerized input control that would prevent employees from entering paid leave claims in excess of available leave balances. If updating Lawson to include appropriate input controls is not feasible, we recommend input controls be included in system specifications for future payroll systems.

Please see Appendix III for management’s response to the recommendation.

Manual Payroll Adjustment Procedures Are Not Properly Segregated

Manual payroll adjustment procedures are not properly segregated. The CCO Payroll Manager can: (1) authorize manual payroll adjustments; (2) perform some of the manual adjustments; (3) review manual adjustments made by other CCO Payroll staff; and, (4) approve all payroll transactions. Audit analysis of the FY 2013 payroll data showed 2,508 of 7,139 payroll adjustments, or 35 percent, were performed by the CCO Payroll Manager. Inadequately segregated duties increases the risk that erroneous or fraudulent transactions could be processed. For example, an individual who is independently responsible for authorizing, processing, and reviewing payroll transactions could inappropriately increase payments to selected individuals without detection.

According to the *Standards for Internal Control in the Federal Government*, management divides or segregates key duties among different people to reduce the risk of error, misuse, or fraud. This includes separating the duties for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Recommendation IX

We recommend the City Manager ensures the City Controller, in consultation with the Director of CIS, ensures the CCO Payroll Manager's duties are properly segregated.

Please see Appendix III for management's response to the recommendation.

City Cannot Determine if Employees Follow the City’s Personnel Rules Related to Paid Leave

The City does not have a reasonable way of verifying what type of paid leave was appropriate for each employee absence. As a result, the City cannot readily determine the actual extent to which employees comply with City Personnel rules related to the proper use of paid leave categories (see textbox). For example, some employees, initially:

Paid Leave Categories
City employees accumulate paid leave in four categories:
<ul style="list-style-type: none">• Vacation• Sick• Compensatory time (for exempt employees)• Attendance incentive (AIL)
Source: City Personnel Rules

- Submitted a paid leave claim for vacation. The paid leave claim was automatically changed to leave without pay because the employees’ vacation balances were already exhausted. Subsequently, the leave without pay paycodes were adjusted by HR upon requests from employees’ supervisors to paid leave by reclassifying the vacation leave to sick leave.
- Changed sick leave to vacation leave which allowed the employees to continue accruing attendance incentive leave (AIL)

Without proper controls in place, the City cannot ensure consistent compliance with Personnel Rules Sec. 34-22 *Sick Leave*, (h) *Sick Leave Usage* and AD 3-39, *Attendance Incentive Program*. Implementing effective controls, however, is challenging. Due to the intricacy of the rules regulating the accumulation and the use of each leave category:

- Employees find it hard to keep up with their leave balances because changes are occurring in different increments in different leave categories
- Employees are not always able to use leave balances in one category if they used up their balance in another category, e. g. employees cannot use sick leave for vacation purposes
- Employees do not always use leave categories according to the category purpose
- The HR is not always able to distinguish a legitimate leave category change from a change aimed at avoiding leave without pay

In addition, the City cannot reasonably monitor each employee’s use of leave and ensure that it was charged to the correct leave category. To overcome these

challenges, other organizations, including cities, have used a Paid Time-Off (PTO) program to simplify leave administration.

The PTO is a program that:

- Combines sick leave, vacation leave, and other leave into one bank of hours available to cover planned or unplanned employee absences
- Allows employees to use the resulting bank of hours as the need or desire arises
- Does not track or record the reasons for employee absences

Organizations with PTO prefer to allow employees to accrue a PTO balance throughout the year and to entirely or partially roll-over the unused PTO balance to the next year. In addition, the majority of organizations with PTO pay out the unused PTO balance in cash when an employee separates from the organization.⁹

Organizations that use PTO, report both numerous benefits and some challenges brought on by the implementation of PTO as follows:¹⁰

Benefits

- Improved morale because employees are treated as adults who do not have to explain the reasons for using PTO
- A reduction in administrative burden because management does not have to track balances in separate categories with separate rules
- Reduced absenteeism because employees get a larger pool of paid time off
- Cost savings because organizations save money by paying out leave at current salaries instead of having employees save their leave and have it paid out at a higher wage when the employee leaves the organization
- The PTO attracts new talent because employees anticipate a larger pool of paid time off compared to competitors with traditional time off policies

⁹ According to a 2010 survey of 1,036 participating organizations by WorldatWork to assess paid time off practices in the United States.

¹⁰ According to a survey from the International Public Management Association for Human Resources (IPMAHR) and Fox Lawson & Associates, a division of Gallagher Benefit Services.

Challenges

- Employees tend to take more time off for recreation rather than saving PTO for the time when they become seriously ill
- Employees typically are not allowed to accumulate significant PTO balances. During the conversion to PTO, employees may also lose accumulated sick leave balances used in place of short-term disability plans. To address this challenge, some organizations with PTO provide short-term disability plans for all their employees.
- Management finds it more difficult to accommodate increased leave requests because employees may take more time off since they do not have to give a reason for leave

There may be challenges specific to the City in implementing a PTO. For example, PTO may not immediately result in a reduction of the City's administrative burden because during the transition to PTO the City may still have to manage different rules for different categories of employees, such as:

- Uniform employees who have more generous paid leave benefits and cannot transition to PTO because of the Meet and Confer provisions
- Civilian employees hired before October 1, 2003 who upon retirement or termination for any reason with 20 or more years of continuous full-time service are eligible to receive a portion of their accumulated sick leave in a lump sum payment
- Civilian employees hired on or after October 1, 2003 who are not eligible to receive a portion of their accumulated sick leave in a lump sum

Personnel Rules Sec. 34-22 *Sick Leave*, (h) *Sick Leave Usage*, lists allowable usage for sick leave. The list does not include the use of sick leave to extend employee vacation if the vacation balance is exhausted. The City's Personnel Rules in Section 34-22 (j) authorize the Director of HR to require that any employee produce a physician's statement demonstrating the existence of an illness or submit to a physical or mental examination. While the City's Personnel Rules do not prohibit the use of vacation leave to cover absences due to employee's illness, the purpose of the AIL, as stated in AD 3-39, the *Attendance Incentive Program*, is "to reward excellent attendance".

Recommendation X

We recommend the City Manager evaluates the benefits and challenges of implementing a PTO to simplify the City's administration of paid leave.

Recommendation XI

We recommend that if the City Manager decides not to implement a PTO, then the City Manager should ensure the Director of HR:

- Provides training to City employees on allowable usage of various categories of leave
- Introduces controls to prevent City employees from adjusting leave categories to gain additional paid leave

Please see Appendix III for management's response to the recommendation.

Some Departmental Written Timekeeping Procedures Include Provisions Not Found in the City's Personnel Rules and Some Personnel Rules Are Outdated

A number of City departments have enacted internal written procedures for timekeeping and attendance that contain paid leave limitations not present in the City's Personnel Rules. The City does not have a procedure for the centralized legal review and approval of departmental procedures to ensure they align with the City's Personnel Rules. Examples from the Department of Water Utilities' (DWU), the Department of Dallas Fire-Rescue (DFR), and the Dallas Police Department's (DPD) timekeeping and attendance procedures include provisions that:

- Deny employee sick leave requests if the sickness, disease, or disability are caused by *"intemperate habits"*, *"immoral conduct"*, *"drugs or alcohol abuse"*
- Discourage *"short interval"* vacation requests

As a result, there is a risk that some City employees may have been denied sick leave and/or vacation leave based on departmental procedures that are inconsistent with the City's Personnel Rules.

Data analysis of the payroll records also found a total of 13,568 of 123,806 instances, or approximately 11 percent, where sick leave and vacation leave were taken in increments other than the ones prescribed in the City's Personnel Rules Sections 34-22 (g) and 34-23 (h) which require that exempt employees take sick leave and vacation in one-hour increments and non-exempt employees take sick leave and vacation in one-tenth of an hour increments. According to management, the leave increments specified in the Personnel Rules were adopted because the mainframe computer formally used for timekeeping was programmed to calculate time in those increments. Lawson is programmed to accept lower time increments.

Recommendation XII

We recommend the City Manager ensures the Director of HR work with other City departments to revise their timekeeping and attendance procedures to bring them into compliance with the City's Personnel Rules.

Recommendation XIII

We recommend the City Manager introduces a procedure to ensure departmental written timekeeping and attendance procedures are reviewed and approved by the City Attorney’s Office prior to the adoption by the City departments.

Recommendation XIV

We recommend the City Manager revises the provisions of Personnel Rules Sections 34-22 (g) and 34-23 (h) to eliminate the requirements for specific time increments for sick leave and vacation usage by civilian employees.

Please see Appendix III for management’s response to the recommendation.

Appendix I

Background, Objective, Scope and Methodology

Background

The INFOR Lawson Human Resources Information System (Lawson) is a suite of Human Resource management software applications used by the City of Dallas (City) for employee benefits, personnel administration, and payroll management. The Lawson payroll module automates the payroll process by gathering time and attendance data from the Lawson time and attendance module and from the Kronos time and attendance database, calculating various payroll deductions, such as 401k contributions and Federal taxes, and generating periodic pay checks and employee tax reports.

Exempt Employee Time and Attendance

City employees who are considered exempt under the *Federal Fair Labor Standards Act of 1938, As Amended* (FLSA) use Lawson to record their work time on an exception basis. Rather than entering all hours worked during a payroll period, exempt employees only enter paid leave hours (attendance incentive, compensatory, sick, vacation) or leave without pay or hours worked outside of the employee’s normal schedule. For example, if an exempt employee on an eight-hour a day and 40-hour a week schedule worked 32 hours in one week and took one vacation day, the employee would only enter the eight hours of vacation leave. If no entries are made, the Lawson time and attendance module assumes this employee worked eight hours each day of the scheduled work week. Supervisors are required to approve the time entries of their subordinates prior to payroll processing.

Some departments track their exempt employees’ attendance internally. Instead of the individual exempt employee entering their time into Lawson, an assigned employee enters and approves the time for all of the department’s employees. The Fiscal Year (FY) 2013 Lawson timekeeping dataset includes 643,870 time records for 5,731 civilian exempt employees. A payroll dataset for the same time period includes a total of 2,123,718 records.

Exempt and Non-Exempt Employees

Exempt employees – "White collar exempt" employees including executive, administrative, professional, computer professional, and outside sales representative employees, etc.

Non-exempt employees – Anyone performing "line duties" as the primary part of their job will be considered non-exempt and thus entitled to overtime pay if they work more than 40 hours in a week.

Source: Texas Workforce Commission, FLSA

Non- Exempt Employee Time and Attendance

City employees considered non-exempt under the FLSA are required to record the time they start and end scheduled work shifts. Time and attendance data for these employees is received from the Kronos time clock recording database. In FY 2013, all non-exempt employees were issued “badges” to swipe in and out at the Kronos “clock” device. The process of swiping in at the beginning of the shift and swiping out at the end of the shift creates a Kronos time record.¹¹ Kronos then computes the time worked between the swipes. In addition, supervisors (or designated data entry persons) enter paid and unpaid leave hours for their employees and are required to approve all records in Kronos. The FY 2013, Kronos dataset includes a total of 1,147,338 records for 2,920 non-exempt civilian employees.

City Personnel Rules

City departments rely on City Personnel Rules Chapter 34, Article III *Leave Policies*, Administrative Directive (AD) 3-04, *Employment Procedures*, AD 3-56, *Payroll Processing and Procedures*, and AD 3-39, *Attendance Incentive Program*, all of which describe the City’s attendance requirements and timekeeping policies and procedures.

Departmental Procedures

In addition to the City’s Personnel Rules, 12 of the 33 City departments have enacted internal procedures for employee timekeeping and attendance. These internal procedures vary by department.

For example, based on a survey of 33 departments, 31 require employees to request and receive pre-approval for overtime. All 33 departments require employees to request pre-approval for time off. In addition, City departments differ in their specific requirements for requesting and documenting sick leave, vacation leave, court leave, and leave without pay (see Table V on the next page).

¹¹ Currently, Kronos users key in their employee numbers at the Kronos “clock” instead of swiping “badges”.

Table V

City Personnel Rules Compared to Certain Departmental Procedures for Requesting and Documenting Leave

Description	City Personnel Rules	Departmental Procedures
Sick Leave	§ 34-22(j)(1): Upon request by a supervisor, a department director, or the director of human resources, an employee may be required to furnish a statement from an attending physician demonstrating the existence of circumstances described in Subsection (h)(l), (2), (3), (4), or (5) of this section.	Nine City departments require (upon request) a physician’s statement or evidence that medical attention was provided within three working days after employee returns to work.
Vacation Leave	§ 34-23(i): A supervisor may grant vacation leave at a time during the year that will best serve the public interest. Preference may be given to an employee on the basis of length of service.	Ten City departments specify that vacation leave be requested in advance and in writing by completing a form or other approved methods, such as e-mail.
Court Leave	§ 34-26(d): The employee must notify the employee’s supervisor upon receipt of a summons or subpoena for which court leave is requested.	Four City departments require their employees to provide a copy of the summons in advance or within three working days.
Leave Without Pay	§ 34-28(c)(1): An employee’s department director may authorize leave without pay for a period not to exceed six consecutive calendar weeks. Leave without pay in excess of six consecutive calendar weeks must be requested by the department director and approved by the director of human resources. The city manager must approve leave without pay in excess of 13 consecutive calendar weeks.	Three City departments require written requests to the supervisor/manager in advance.

Source: City Personnel Rules, Chapter 34 and departmental rules

Objective, Scope and Methodology

This audit was conducted under authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2012 Audit Plan approved by the City Council. The audit objective was to assess internal controls and processes to determine the accuracy of the payroll system and the adequacy / reliability of controls. The audit objective was further refined to focus on civilian timekeeping internal controls and processes. The audit scope included payroll transactions processed during FY 2013; however, we also reviewed certain related transactions and records before and after that period. This performance audit was conducted 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 objective. We believe that the evidence obtained

**An Audit Report on –
City of Dallas’ Civilian Timekeeping Internal Controls and Processes**

provides a reasonable basis for our findings and conclusions based on our audit objective.

To achieve the audit objective, we performed the following procedures:

- Analyzed:
 - FY 2013 Lawson timekeeping database records
 - FY 2013 Kronos timekeeping database records
 - FY 2013 Lawson payroll database records
- Interviewed City staff
- Reviewed:
 - State statutes, City Administrative Directives, and Personnel Rules related to timekeeping and attendance
 - Judgmental sample of payroll adjustments
- Conducted a survey of all 33 City departments regarding their timekeeping and attendance procedures

Appendix II

Major Contributors to This Report

Anatoli V. Douditski, CIA – Project Manager

Carol A. Smith, CPA, CIA, CFE, CFF – First Assistant City Auditor

Theresa Hampden, CPA – Quality Control Manager

Management's Response

Memorandum

RECEIVED
JUL 28 2015
City Auditor's
Office



CITY OF DALLAS

DATE: July 28, 2015
TO: Craig D. Kinton, City Auditor
SUBJECT: Response to Audit Report:
Audit of City of Dallas' Civilian Timekeeping and Internal Controls and Processes

Several of the recommendations in the audit specify features and functionalities that are not supported by our current HRIS (Lawson) system and would require modifying the vendor software. The FY 2015-16 budget includes a Business Technology Request for replacement of our current HRIS system with a new Human Capital Management System. As part of the procurement process to obtain a new system, the Request for Competitive Sealed Proposal (RFCSP) will include those functionalities listed in the recommendations, but not currently supported in HRIS, as desired features for the new system.

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the City Manager ensures the Director of HR introduces compliance with timekeeping approval requirements as a performance evaluation measure for all City Department Directors.

Management Response / Corrective Action Plan

Agree Disagree

Time keeping approvals will be included in all Department Directors' FY15-16 performance plans.

Implementation Date

December 31, 2015

Responsible Manager

Human Resources Director

Recommendation II

We recommend the City Manager ensures the Director of HR:

- Adjusts paid leave balances of the four employees who did not report their absences in FY 2013

- Determines whether or not similar adjustments are needed for other fiscal years

Management Response / Corrective Action Plan

Agree x Disagree

Human Resources will adjust paid leave balances for the four employees who did not report their absences in FY2013 and will review other fiscal years for similar adjustments.

Implementation Date

September 30, 2015

Responsible Manager

Human Resources Director

Recommendation III

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, require that all Lawson timekeeping entries have a record of supervisory review and approval in line with the City's practice of approving the entire bi-weekly pay period of timekeeping records. If updating Lawson to create a record of supervisory review and approval for the entire bi-weekly pay period of timekeeping records is not feasible, we recommend this feature be included in the system specifications for future Human Capital Management systems.

Management Response / Corrective Action Plan

Agree x Disagree

The current version of Lawson does not support the functionality as specified in the audit recommendation. CIS does not recommend changing or modifying any vendor software. Modifying software introduces risks to the data integrity of the system and may also invalidate the technical support contract with the vendor. Additionally, it is a costly effort to pay for the customization and also for the additional costs incurred when the system is upgraded to a future release due to the inherent potential complexities of the custom code introduced into the system. When the Human Capital Management system RFCSP is developed, this functionality will be included as desired functionality.

Implementation Date

Upon implementation of a new Human Capital Management system (assuming this functionality is available in the market and inclusion is cost effective).

Responsible Manager

Sr. IT Manager

Recommendation IV

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for recording and preserving the data field containing the user IDs of the individuals who approved timekeeping records in both Lawson and Kronos.

Management Response / Corrective Action Plan

Agree x Disagree

The Kronos system preserves the records of timekeeping approval. This data is visible within the Kronos system. HR and CIS will discuss with Kronos the feasibility of retrieving this data in a format acceptable to the auditor's office. The current version of Lawson does not support the functionality as specified in the audit recommendation. Modifying vendor software introduces risks to the data integrity and is cost prohibitive.

Again, this capability will be included in the system specifications for a future Human Capital Management system.

Implementation Date

Upon implementation of a new Human Capital Management system (assuming this functionality is available in the market and inclusion is cost effective).

Responsible Manager

Sr. IT Manager

Recommendation V

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for preserving a list of designated approvers for Lawson and Kronos in a readily retrievable format.

Management Response / Corrective Action Plan

Agree Disagree

The current version of Lawson does not support the functionality as specified in the recommendation. Modification of vendor software is cost prohibitive and introduces risks to the data integrity. This capability will be included in the system specifications for a future Human Capital Management system.

Implementation Date

Upon implementation of a new Human Capital Management system (assuming this functionality is available in the market and inclusion is cost effective).

Responsible Manager

Sr. IT Manager

Recommendation VI

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for periodically comparing approver user IDs for Lawson and Kronos to the user IDs of designated approvers to identify unauthorized approvals and take appropriate action.

Management Response / Corrective Action Plan

Agree Disagree

The current version of Lawson does not support the functionality as specified in the recommendation. Modification of vendor software is cost prohibitive and introduces risks to the data integrity. This capability will be included in the system specifications for a future Human Capital Management system.

Implementation Date

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Upon implementation of a new Human Capital Management system (assuming this functionality is available in the market and inclusion is cost effective).

Responsible Manager
Sr. IT Manager

Recommendation VII

We recommend the City Manager ensures the Director of HR, in cooperation with the Director of CIS, develops procedures for payroll processing that will eliminate the need for CCO Payroll Manager to approve timekeeping records for employees outside of CCO Payroll Division.

Management Response / Corrective Action Plan

Agree x Disagree

Duties have been segregated between HR and CCO however HR, CCO and CIS will provide options to the City Manager’s Office for addressing this finding and will implement the solutions with the implementation of a new Human Capital Management System.

Implementation Date

Upon implementation of a new Human Capital Management system.

Responsible Manager
City Controller

Recommendation VIII

We recommend the City Manager ensures the Director of HR, the City Controller, and the Director of CIS introduce a computerized input control that would prevent employees from entering paid leave claims in excess of available leave balances. If updating Lawson to include appropriate input controls is not feasible, we recommend input controls be included in system specifications for future Human Capital Management systems.

Management Response / Corrective Action Plan

Agree x Disagree

This functionality does not exist in Lawson, but will be included in system specifications for a future Human Capital Management system.

Implementation Date

Upon implementation of a new Human Capital Management system (assuming this functionality is available in the market and inclusion is cost effective).

Responsible Manager
Sr. IT Manager

Recommendation IX

We recommend the City Manager ensures the City Controller, in consultation with the Director of CIS, ensures the CCO Payroll Manager’s duties are properly segregated.

Management Response / Corrective Action Plan

“Dallas, the City that Works: Diverse, Vibrant, and Progressive.”

Agree x Disagree

Human Resources personnel authorize, record, and approve payroll transactions. The functionality does not exist in Lawson to remove the ability for the CCO Payroll Division to perform these functions but will be included in system specifications for a future Human Capital Management system.

Implementation Date

Upon implementation of a new Human Capital Management system.

Responsible Manager

City Controller

Recommendation X

We recommend the City Manager evaluates the benefits and challenges of implementing a PTO to simplify the City's administration of paid leave.

Management Response / Corrective Action Plan

Agree x Disagree

HR will study the benefits, challenges, legal issues, and system ability to move to a PTO system and provide that information to the City Manager's Office for their review/suggestions.

Implementation Date

March 31, 2016

Responsible Manager

Human Resources Director

Recommendation XI

We recommend that if the City Manager decides not to implement a PTO, then the City Manager should ensure the Director of HR:

- Provides training to City employees on allowable usage of various categories of leave
- Introduces controls to prevent City employees from adjusting leave categories to gain additional paid leave

Management Response / Corrective Action Plan

Agree x Disagree

HR will include training in New Employee Orientation and will develop FAQs on the appropriate use of leave.

HR will revise the Payroll Processing and Procedures Administrative Directive 3-56 to introduce additional controls related to changing leave time from one type of leave to another.

Implementation Date

March 31, 2016

Responsible Manager

Human Resource Director

Recommendation XII

We recommend the City Manager ensures the Director of HR work with other City departments to revise their timekeeping and attendance procedures to bring them into compliance with the City's Personnel Rules.

Management Response / Corrective Action Plan

Agree x Disagree

HR will request department leave policies and forward them to the City Attorney's Office for review.

Implementation Date

December 31, 2016

Responsible Manager

Human Resources Director

Recommendation XIII

We recommend the City Manager introduces a procedure to ensure departmental written timekeeping and attendance procedures are reviewed and approved by the City Attorney's Office prior to the adoption by the City departments.

Management Response / Corrective Action Plan

Agree x Disagree

HR will create an annual process requiring departments to review their time and attendance policies for changes/updates and City Attorney approval.

Implementation Date

December 31, 2016

Responsible Manager

Human Resources Director

Recommendation XIV

We recommend the City Manager revises the provisions of Personnel Rules Sections 34-22 (g) and 34-23 (h) to eliminate the requirements for specific time increments for sick leave and vacation usage by civilian employees.

Management Response / Corrective Action Plan

Agree x Disagree

HR will include these changes in the 2015 Personnel Rule changes approved by the City Council in September, 2015.

Implementation Date

October 31, 2015

Responsible Manager

Human Resources Director

An Audit Report on –
City of Dallas' Civilian Timekeeping Internal Controls and Processes

Sincerely,



A.C. Gonzalez
City Manager

Brian for Molly Carroll

Molly Carroll, Director
Department of Human Resources

James Martin for Edward Scott

Edward Scott, City Controller

Tommy Aguilera (FOR WILLIAM FINCH)

William Finch, Director
Department of Communication and Information Services

C: