COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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October 8, 2009

TO: Supervisor Don Knabe, Chairman
           Supervisor Gloria Molina
           Supervisor Mark Ridley-Thomas
           Supervisor Zev Yaroslavsky
           Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
           Auditor-Controller

SUBJECT: **INTERNAL SERVICES DEPARTMENT – PAYROLL/PERSONNEL REVIEW**

On September 11, 2007, based on issues noted in our review of payroll/personnel in one County department, your Board instructed us to develop a risk-based plan to audit payroll/personnel operations in all County departments. In accordance with the developed plan, we completed a review of the Internal Services Department's (ISD or Department) compliance with County payroll and personnel policies and their use of the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS). Our review covered areas such as overtime usage, recording time and attendance, industrial accident payments, leave accounting, monitoring bonus eligibility, processing employee terminations and data security.

Summary of Findings

ISD staff and management sufficiently document and approve employee work hours, budget overtime and complete County employee background checks. ISD needs to strengthen its controls over other areas of their payroll/personnel operations and use of CWTAPPS. The following are examples of areas for improvement.

- ISD needs to ensure that employees on extended sick leave are paid accurately. Nine (90%) of ten employees we reviewed were paid incorrectly resulting in possible overpayments totaling $24,140 and underpayments totaling $350.

- County Code Section 6.20.120 authorizes departments to require medical certifications from employees who are absent due to illness or injury. We reviewed three (7%) of the 44 ISD employees who were absent for extended periods and noted that the Department did not have adequate medical certifications to support 3,100 (89%) of the 3,500 total hours of sick leave taken by these employees, totaling $22,500 in sick leave. In two of these three cases, the employees exceeded the amount of time off indicated by the physicians. In the other case, the medical certification did not specify the amount of time off.

- ISD needs to ensure Payroll staff process leave donations accurately. We noted that for three (50%) of six leave donations, Payroll staff did not deduct the donation from the donors' leave balances.

- ISD needs to ensure Payroll staff enter and adjust industrial accident information into CWTAPPS correctly. Payroll staff incorrectly entered information for nine (50%) of 18 employees reviewed, resulting in possible overpayments totaling $4,400.

- ISD needs to ensure that overtime is approved before it is worked when possible and appropriately documented. The Department could not provide approval documentation for 39 (42%) of 93 overtime shifts we reviewed.

- ISD needs to improve security over CWTAPPS. We noted three CWTAPPS users can change their own payroll/personnel information.

- ISD needs to improve security over payroll and personnel records. All Human Resources Administrative Division staff have access to the personnel file storage room, payroll file cabinets and old timecards, even though their job responsibilities do not require this access.

- ISD needs to improve their internal controls over employee terminations, CWTAPPS reports and record keeping.

As indicated, we noted several possible overpayments, underpayments and incorrect leave balances. County policies do not specify when employees are required to repay overpayments because the facts of each overpayment are unique. ISD management should research the individual cases in this report and work with the Department of Human Resources, Auditor-Controller Countywide Payroll and County Counsel to recover overpayments, issue supplemental warrants to correct underpayments and/or adjust employee leave benefit balances.

Although this report is a review of ISD's Payroll/Personnel operations, we recommend that other County departments review the findings in this report and ensure the necessary controls are in place.

Details of these and other findings and recommendations are included in the attached report.

Review of Report

We discussed our report with ISD management. The Department's attached response indicates agreement with our findings and recommendations.

We thank ISD management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
   Tom Tindall, Director, Internal Services Department
   Lisa M. Garrett, Acting Director, Department of Human Resources
   Robert E. Kalunian, Acting County Counsel
   Department Heads
   Public Information Office
   Audit Committee

INTERNAL SERVICES DEPARTMENT
PAYROLL/PERSONNEL REVIEW

Background

The Internal Services Department (ISD or Department) has approximately 2,100 employees. Payroll clerks in the Personnel/Payroll Services Section of the Human Resources (HR) Division enter employee time information into the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) and maintain employee leave balances. HR Division Personnel staff, process personnel transactions, such as hires/terminations, and maintain personnel data, including hire dates, social security numbers and County job history. The HR Division's Risk Management Section maintains industrial accident information in CWTAPPS.

Scope

We reviewed ISD's compliance with County payroll and personnel processing policies, including compliance with the County Fiscal Manual. Our review included interviews with staff and tests of overtime, employee time records, industrial accident and termination payments, warrant distribution and data security.

COMMENTS AND RECOMMENDATIONS

Payroll Exceptions

Our review disclosed a number of errors, such as incorrect time cards, CWTAPPS input errors and misapplication of County payroll rules and regulations. These errors have resulted in possible overpayments, underpayments and incorrect leave balances. Some of the errors may have only been documentation or procedural errors, and not overpayments that would require employees to repay the amounts.

County policies do not specify when employees are required to repay overpayments because the facts of each overpayment are unique. ISD management should research the individual cases noted in this report and work with the Department of Human Resources (DHR), Auditor-Controller (A-C) Countywide Payroll and County Counsel to recover overpayments, issue supplemental warrants to correct underpayments and/or adjust employee leave benefit balances.

Recommendation

1. **ISD management research the exceptions identified throughout this report and work with DHR, Auditor-Controller Countywide Payroll and County Counsel to recover overpayments, issue supplemental warrants to correct underpayments and/or adjust employee leave benefit balances.**

Leave Accounting

Part-Pay Sick Leave

Employees who are eligible for sick leave and are out sick can use full-pay or part-pay sick leave for their absence. However, these employees cannot use part-pay sick leave until they have used all of their full-pay sick leave available at the time of the injury or illness. Once an employee begins using part-pay sick leave, County Code Section 6.20.050 prohibits the employee from using any type of full-pay leave (e.g. vacation, full-pay sick leave, etc.), they may have earned while on leave, unless specifically authorized by the department head.

We reviewed CWTAPPS data for ten employees on extended sick leave and noted nine (90%) employees were paid incorrectly. Specifically:

- Five employees went from using part-pay sick leave to using full-pay sick leave or other full-pay leave without the required Department Head approval. This resulted in potential overpayments totaling approximately $23,100 and incorrect benefit balances.

- Five employees' part-pay sick leave hours were coded incorrectly in CWTAPPS, resulting in potential overpayments totaling $1,040, underpayments totaling $90 and incorrect sick leave balances.

- Four employees used part-pay sick leave before using all of their full-pay sick leave. This resulted in underpayments totaling $260 and incorrect benefit balances.

Recommendations

ISD Payroll Section management:

2. **Obtain Department Head approval before employees use full-pay leave when employees are on part-pay status.**

3. **Train Payroll staff on the rules for coding part-pay sick leave and monitor to ensure correct leave codes are used.**

Medical Certifications

In accordance with County Code Section 6.20.120, ISD policy requires employees to provide medical certifications for extended absences due to an injury or illness. DHR staff indicated that adequate medical certifications should include, at a minimum, the doctor visit dates, the estimated duration/frequency of the absence, a statement from the doctor that the illness or injury prevents the employee from performing his/her regular duties and the doctor's signature. In addition, departments should require

employees to provide an updated medical certification if their absences or work restrictions vary from the original certification.

We sampled three of 44 ISD employees who had extended absences and noted that the Department did not have adequate medical certifications to support 3,100 (89%) of the 3,500 total hours of sick leave taken by these three employees, totaling $22,500 in sick leave payments. Specifically, two employees' absences exceeded the estimates on their certifications by 1,600 hours and one employee's certification only indicated that the absence was "variable" and did not include an estimated duration and frequency of absences for her 1,500 hours of leave.

ISD HR should require employees to provide adequate medical certifications for any frequent or extended absence due to illness or injury and require employees to provide an updated medical certification if their absences or work restrictions vary from the original certification.

Recommendations

ISD HR management:

4. **Require employees to provide adequate medical certifications for any frequent or extended absence due to illness or injury.**

5. **Require employees to provide an updated medical certification if their absences or work restrictions vary from the original certification.**

Leave Donations

Under the County's Leave Donation Program, employees may donate some of their accrued benefits to another employee who has exhausted his/her accrued leave and continues to be absent because of a prolonged illness. The donating employee must retain a balance of at least 160 hours of full-pay Sick Leave after the donation to ensure that donors maintain sufficient sick leave balances.

We reviewed CWTAPPS records for six leave donations and noted three instances, totaling 40 hours, where Payroll staff did not deduct the leave from the donors' leave balances. In addition, two donors did not retain a balance of 160 hours of full-pay Sick Leave as required.

Recommendation

6. **ISD Payroll management correct the donors' leave benefit balances and/or seek overpayment recovery if the donors have left County service for the exceptions identified and ensure Payroll staff process future leave donations accurately.**

Industrial Accidents

County employees who are unable to work because of work-related injuries (i.e., Industrial Accidents (IA)) may receive temporary disability (TD) benefits. The benefits are authorized by one of the County's Third-Party Administrators (TPA), who sends a Notice of Benefits (NOB) to the employee and ISD's Risk Management Section. The NOB indicates the beginning/ending benefit dates and what TD benefits the employee will receive. ISD Risk Management Section works with the Payroll Section to update CWTAPPS for the benefit information and to make the necessary timekeeping and leave adjustments.

We reviewed 18 IA cases and noted CWTAPPS coding errors for nine (50%) employees, including three employees with multiple errors. Specifically:

- Payroll staff did not update CWTAPPS for IA benefit payment information included on the NOB for four employees, resulting in possible overpayments totaling $3,100 and incorrect leave balances.

- Risk Management staff incorrectly entered beginning/ending benefit dates into CWTAPPS for four employees, resulting in possible overpayments totaling $700, minor underpayments and incorrect leave balances.

- Payroll staff did not adjust CWTAPPS for IA benefits on holidays for four employees resulting in overpayments totaling $600.

Recommendation

7. **ISD HR management reinforce to Payroll and Risk Management staff the importance of accurately entering and updating CWTAPPS Industrial Accident information and monitor for compliance.**

Overtime

Overtime Approvals

ISD policy requires all overtime to be approved. In some circumstances (i.e., emergencies, weekends, etc.), overtime may need to be approved after it is worked. County Fiscal Manual (CFM) Section 3.1.3 requires departments to maintain payroll supporting documents for at least five years.

We reviewed 93 overtime shifts worked by ISD staff and noted 25 (27%) overtime approval slips were missing and 14 (15%) non-emergency overtime slips were approved an average of nine days after the overtime was worked.

Recommendations

ISD management:

8. **Ensure that all overtime is properly approved in writing and that all non-emergency overtime is approved before it is worked.**

9. **Maintain all overtime approval slips for at least five years.**

Status Override

CWTAPPS lists the overtime status (i.e., exempt, covered) and pay method (i.e., accrue, straight time, etc.) for each employee item. County policy allows departments to override the status and pay method in CWTAPPS with Chief Executive Office (CEO) approval.

We noted that ISD overrode the overtime status and pay method for three personnel items. However, the Department could not provide documentation of CEO approval for one of the items, resulting in possible overpayment to three employees on that item totaling $8,900 during Fiscal Year 2007-08.

Recommendation

10. **ISD management work with the CEO to establish the correct overtime status and pay method and determine if the employees were overpaid.**

Data Access

Processing Centers

CFM Section 3.1.5 states that CWTAPPS processing centers should be used so that Payroll and Personnel staff do not have access to their own payroll/personnel information. ISD groups employees into CWTAPPS processing centers. However, we noted three CWTAPPS users can change their own payroll/personnel information.

Recommendation

11. **ISD management use additional processing centers so staff do not have access to their own payroll/personnel information on CWTAPPS.**

Record Security

CFM Sections 3.1.3 and 3.1.10 require departments to have adequate security over payroll and personnel records and restrict access to authorized personnel. We noted that ISD does not have adequate security over payroll and personnel records. Specifically, all Human Resources Administrative Division employees have access to the personnel file storage room, payroll file cabinets and old timecards, even though their job responsibilities do not require this access.

Recommendation

12. **ISD management restrict access to payroll and personnel files to appropriate staff and ensure employees do not have access to their own files.**

Employee Terminations

When an employee terminates County employment, Personnel staff enter the required information into CWTAPPS. With certain exceptions (e.g., Megaflex elective leave, etc.), CWTAPPS calculates the terminated employee's final paycheck. It is important that departments enter terminations into CWTAPPS by the Auditor-Controller deadlines. Terminations entered after the deadlines must be processed manually and may result in incorrect payments.

Timeliness of Terminations

Two (20%) of ten terminations we tested were not processed within the Auditor-Controller deadline. These terminations were entered into CWTAPPS an average of 26 days late. Personnel management indicated that the processing delays are due to the pay locations submitting documents late. Although we found no payment errors, the delays resulted in employees being paid late.

Recommendation

13. **ISD Personnel management monitor to ensure terminations are processed timely.**

Verification of Terminations on CWTAPPS

CFM Section 3.1.8 requires personnel management (or someone independent of entering job, time card and/or termination transactions on CWTAPPS) to keep a list of terminated employees and trace the terminated employees' names to the Payroll Sequence Register for at least three consecutive months to ensure that terminated employees are not being paid. ISD does not perform this function.

Recommendation

14. **ISD management ensure Personnel management (or someone independent of entering job, time card and/or termination transactions on CWTAPPS) traces terminated employees' names to the Payroll Sequence Register for at least three consecutive months after the employees terminates.**

CWTAPPS Reports

CWTAPPS automatically generates reports to assist managers in monitoring payroll/personnel operations. CFM Section 3.1.0 requires Payroll staff to investigate exceptions on the following eight reports and immediately process any necessary adjustments.

- Time Card Error Report
- Leave Benefit Negative Balance Report
- Time Card Leave Defaulting Report
- Leave Final Pay Exception Report
- Overtime Activity Report
- Change in Overtime History Exception Report
- Excessive Comp Earned/Regular Hours Exception Report
- Premium Overtime Transaction Exception Report

Payroll staff should annotate the reports to document the disposition of each entry and sign and date the report. The Payroll Supervisor should also review the reports each pay period to ensure that adjustments are made promptly and correctly. The Supervisor should also sign and date the reports.

We noted that 11 (35%) of 31 CWTAPPS reports did not have any annotations for the exceptions. In addition, the Payroll Supervisor did not sign and date 29 (94%) of the reports.

Recommendation

15. **ISD management review the CWTAPPS reports to ensure the Payroll Supervisor and staff review the reports as required in the County Fiscal Manual.**

Record Keeping

CFM Section 3.1.3 requires departments to keep supporting documents for at least five years for audit purposes. ISD was unable to locate several industrial accident and leave request documents that were within the five-year period.

Recommendation

16. ISD management ensure that industrial accident and leave request documents are retained for at least five years.

COUNTY OF LOS ANGELES
Internal Services Department
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To enrich lives through effective and caring service.

September 30, 2009

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To: Wendy L. Watanabe
           Auditor-Controller

From: Tom Tindall   *Tom Tindall*
           Director

Subject: **RESPONSE TO THE A-C PAYROLL/PERSONNEL REVIEW**

Attached are our responses to the findings and recommendations contained in your report.

We thank your audit staff for their professionalism and objectivity during the review. If you need any additional information, please contact me or your staff may contact Dave Yamashita at (323) 267-2136 or via email at dyamashita@isd.lacounty.gov.

TT:DY:cb
Attachment

c: Ellen Sandt, DCEO

INTERNAL SERVICES DEPARTMENT

RESPONSE TO THE AUDITOR-CONTROLLER AUDIT REPORT
PAYROLL/PERSONNEL REVIEW

Recommendation 1: ISD management research the exceptions identified throughout this report and work with DHR, Auditor-Controller Countywide Payroll and County Counsel to recover overpayments, issue supplemental warrants to collect underpayments and/or adjust employee leave benefit balances.

ISD Response:

We concur.

The responsibility of verifying and recalculating the exception amounts has been assigned to the Section Manager, for Payroll and Personnel Operations, who will coordinate the analysis internally and with outside agencies (e.g., Third Party Administrator, Auditor-Controller, Department of Human Resources, County Counsel, etc.). Upon completion of the analysis, ISD Human Resources (HR) will develop an action plan for each exception to determine whether an overpayment letter is needed, a supplemental warrant should be issued and/or whether adjustments need to be made into CWTAPPS.

Target Date: October 29, 2009

Recommendation 2: Obtain Department Head approval before employees use full-pay leave when employees are on part-pay status.

ISD Response:

We generally concur.

Since obtaining Department Head approval is not practical, the ISD Department Head will delegate approval authority to the HR Division Manager or respective division manager or higher. In addition, Payroll staff will be instructed to not allow employees to use full-pay leave without receiving documentation that full pay leave has been approved by the HR Division Manager or respective division manager. These approvals will be maintained in a file according to record retention policies.

Target Date: October 15, 2009

Recommendation 3: Train Payroll staff on the rules for coding part-pay sick leave and monitor to ensure correct leave codes are used.

ISD Response:

We concur.

Training will be conducted to ensure Payroll staff is aware of the proper policies which include: coding, observance of waiting periods, obtaining approvals to use full pay when employees are on part-pay status, proper processing of leave donations, industrial accident processing, report usage, etc. Payroll staff will be instructed to maintain detailed training materials on hand for record keeping and future reference.

Additionally, monthly meetings have been established to discuss any exceptions/issues affecting Risk Management, Return to Work and Payroll.

Target Date: November 30, 2009

Recommendation 4: Require employees to provide adequate medical certifications for any frequent or extended absence due to illness or injury.

ISD Response:

We concur.

ISD will seek further clarification from County Counsel and the Department of Human Resources on the specific instances when updated medical certifications should be obtained. Upon clarification, ISD will evaluate whether ISD Policy #706 Time Off the Job, which provides guidelines and policies on obtaining medical certifications from any employee absent frequently or long-term due to illness or injury, meets the requirements and update as necessary. Upon completion, the current or updated policy will be reiterated to all ISD managers and supervisors via memo to ensure their compliance.

Additionally, monthly meetings have been established to discuss any exceptions/issues affecting Risk Management, Return to Work and Payroll.

Target Date: January 4, 2010

Recommendation 5: Require employees to provide an updated medical certification if their absences or work restrictions vary from the original certification.

ISD Response:

We generally concur.

ISD will seek further clarification from County Counsel and the Department of Human Resources on the specific instances when an updated medical certification should be obtained for employees on Family Medical Leave. Upon clarification, ISD will evaluate current policies and procedures to determine the types of changes required. Any changes in policies and procedures will be communicated to affected personnel in Risk Management, Return to Work, Payroll and ISD Managers/Supervisors.

Target Date: June 30, 2010

Recommendation 6: ISD Payroll management correct the donors' leave benefit balances and/or seek overpayment recovery if the donors have left County service for the exceptions identified and ensure Payroll staff process future leave donations accurately.

<u>ISD Response:</u>

We concur.

See ISD Response to Recommendation 3.

    Target Date: November 30, 2009

Recommendation 7: ISD HR management reinforce to Payroll and Risk Management staff the importance of accurately entering and updating CWTAPPS Industrial Accident information and monitor for compliance.

<u>ISD Response:</u>

We concur.

See ISD Response to Recommendation 3.

    Target Date: November 30, 2009

Recommendation 8: Ensure that all overtime is properly approved in writing and that all non-emergency overtime is approved before it is worked.

<u>ISD Response:</u>

We concur.

ISD Policy #735, Overtime/Fair Labor Standards Act, provide guidelines, controls, and procedures governing overtime which includes procedures to ensure that all overtime is approved in advance except in the case of emergencies. Policy #735 will be reevaluated to determine whether any updates should be made including a clause that all emergency overtime must be approved within a specified date after the employee has worked and that all overtime slips must be maintained for at least five years. In addition, a memo will be sent to all managers to remind them that all overtime must be pre-approved within a given time period.

    Target Date: December 1, 2009

Recommendation 9: ISD management maintain all overtime approval slips for at least five years.

ISD Response:

We concur.

See response to Recommendation 8.

    Target Date: December 1, 2009

Recommendation 10: ISD management work with the CEO to establish the correct overtime status and pay method and determine if the employees were overpaid.

ISD Response:

We concur.

To clarify, ISD updated the overtime status for one item, the Senior Accounting Systems Analyst, held by three employees to override the status from exempt to FLSA covered as allowed by County policy. ISD will send a memo to CEO Compensation to obtain formal approval which will include a list of job duties and justification on how ISD made the determination.

    Target Date: February 25, 2010

Recommendation 11: ISD management use additional processing centers so staff do not have access to their own payroll/personnel information on CWTAPPS.

ISD Response:

We concur.

ISD has already implemented this recommendation.

    Target Date: Completed

Recommendation 12: ISD management restrict access to payroll and personnel files to appropriate staff and ensure employees do not have access to their own files.

ISD Response:

We concur.

ISD has already implemented this recommendation.

Target Date: Completed

Recommendation 13: ISD Personnel management monitor to ensure terminations are processed timely.

ISD Response:

We concur.

On an annual basis, ISD Human Resources will send a reminder memo to all managers and employees on the importance of timely notification of termination to Human Resources. In addition, Payroll and Personnel staff will be trained on using the proper reports to ensure timely termination is processed and entered into CWTAPPS.

Target Date: December 31, 2009

Recommendation 14: ISD management ensure Personnel management (or someone independent of entering job, time card and/or termination transactions on CWTAPPS) traces terminated employees' names to the Payroll Sequence Register for at least three consecutive months after the employees terminates.

ISD Response:

We concur.

The responsibility of tracing terminated employees' names to the Payroll Sequence Register has been assigned to an Administrative Services Manager II, who reports directly to the HR Division Manager. This employee is independent of payroll and personnel functions.

Target Date: October 15, 2009

Recommendation 15: ISD management review the CWTAPPS reports to ensure the Payroll Supervisor and staff review the reports as required in the County Fiscal Manual.

ISD Response:

We concur.

ISD has already taken steps to implement this recommendation. ISD has developed a detailed and comprehensive listing of all CWTAPPS reports which includes: Report Name, Print Date, Distribution Date, Responsible Person, Frequency of Review, and Report Purpose. Training will be provided to ensure that all Payroll staff is

knowledgeable with the reports which include appropriate methods of reviewing and annotating reports.

Target Date: October 15, 2009

Recommendation 16: ISD management ensure that industrial accident and leave request documents are retained for at least five years.

ISD Response:

We concur.

ISD has already implemented this recommendation.

Target Date: Completed