

OFFICE OF THE CITY CONTROLLER



**LIBRARY DEPARTMENT
PAYROLL AUDIT
FOR PAY PERIOD ENDED MARCH 12, 1999
THROUGH PAY PERIOD ENDED AUGUST 27, 1999**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

July 14, 2000

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

SUBJECT: Library Department
Payroll Audit (Report No. 00-1 1)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a Payroll Audit of the Library Department for the period of March 12, 1999 through August 27, 1999. The objective of this audit was to determine whether accounting procedures and internal controls provide management with reasonable assurance that the Department's payroll cost are accurately computed, properly recorded, reported and authorized. Additionally, we tested for compliance with applicable city policies and procedures and performed a payroll distribution of seven pay locations.

Based on the results of our audit, the auditors concluded that payroll is being accurately computed properly recorded, reported and supported in compliance with management's authorization, and City policies and procedures. Also, based on our observation of the payroll distribution, we did not note any discrepancies for the seven pay locations tested. Draft copies of the report were provided to department officials. The findings and recommendations are presented in the body of the report and views of responsible officials as to actions being taken are appended to the report as Exhibit 1.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Cheryl Dotson, Chief of Staff, Mayor's Office
Barbara Gubbin, Director, Library Department
Sara Culbreth, Acting Director, Finance and Administration Department

901 BAGBY, 8TH FLOOR - P.O. BOX 1562 - HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 - FAX- 713-247-3181
e-mail: ctrsrg@ctr.ci.houston.tx.us

CONTENTS

LETTER OF TRANSMITTAL.....	i
SCOPE AND PURPOSE	1
CONCLUSION	2
INTRODUCTION.....	3
FINDINGS AND RECOMMENDATIONS	
I. POLICY AND PROCEDURES	4
II. PAYROLL DEDUCTIONS.....	4
 VIEWS OF RESPONSIBLE OFFICIALS - EXHIBIT I	

SCOPE AND PURPOSE

We have completed an audit of the accounting procedures and controls related to payroll costs in the Library Department (Department) to determine whether accounting procedures and internal controls provide management with reasonable assurance that the Department's payroll is being accurately computed, properly recorded, reported and supported in compliance with management's authorization, and City policies and procedures.

The scope of this audit included payroll costs incurred during the period of March 12, 1999 through August 27, 1999. The audit consisted of reviewing the accounting procedures and internal controls related to the approval and accuracy of employees pay rates, hours worked and reported, deductions from gross pay taken, the processing of employee paychecks through GHRS and the accounting for the departmental payroll costs on the City's Advantage accounting system. In addition, the audit included a surprise payroll distribution.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to review the accounting procedures and controls related to payroll costs, test for compliance therewith and provide recommendations for improvement where appropriate. This was a financial related audit executed in accordance with generally accepted governmental auditing standards.

Departmental management is responsible for establishing and maintaining a system of internal controls related to payroll costs. The objectives of this system are to provide management with reasonable, but not absolute, assurance that the City's assets are safeguarded against loss from unauthorized use or disposition, and that all payroll related transactions are executed in accordance with management's authorization and all applicable Department and city-wide procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

Based on the results of our testing, we concluded that payroll is being accurately computed, properly recorded, reported and supported in compliance with management's authorization, and City policies and procedures, except for the instances noted in the body of the report.

Also, based on our observation of the payroll distribution, we did not note any discrepancies for the seven pay locations tested.

Camille Jones
Auditor-in-charge

Rudy Garcia
Audit Manager

Steve Schoonover
City Auditor

INTRODUCTION

The City uses the Advantage 2000 (Advantage) system to process its payroll and pays City employees every other Friday (Bi-weekly). The Finance and Administration Department, Human Resource Department, the individual departments, and the Controller's Office share responsibilities for processing payroll.

The Human Resource Department processes personnel actions, such as new hires, promotions and transfers, on the six-part multi-copy 201 Form. The completed and authorized 201 Forms are forwarded to the Finance and Administration Department's Central Payroll Division (Central Payroll). Central Payroll enters employee information from the 201 Forms, which includes employee name, address, base pay, longevity, pay location and other pertinent employee information into the Advantage 2000 employee master file. Central Payroll then forwards the 201 Form to the City Controller's Office Payroll Section for data verification and accuracy. If the employee information is correct, the Payroll Section will release the information from suspense and update the Advantage 2000 master files. The Controller's Office keeps one copy of the 201 Form and distributes the remaining copies to the appropriate departments.

City employees are classified as either Positive Pay or Exception Pay. Positive Pay employees are paid only after the actual hours they worked are entered into the Advantage 2000 system. Exception Pay employees are generally salaried and are paid automatically for 40 hours worked per week, unless an exception to the standard hours (vacation, sick, etc.) is entered into the system.

At the time of our audit, the Library Department had approximately 713 employees in 78 pay locations. Timesheets are prepared for all employees and the employee hours are entered into the Advantage 2000 system for processing and distribution of the payroll checks.

AUDIT FINDINGS AND RECOMMENDATIONS

I. POLICY AND PROCEDURES

BACKGROUND

Management establishes policies and procedures to provide reasonable assurance that specific entity objectives will be achieved. Policies and procedures provide standards, guidelines, and a uniform manner for processing transactions. If accurately documented, they can be a tremendous aid for training employees. However, in order to constitute an effective component of internal control, policies and procedures must be current, and reflective of how the organization functions.

FINDING

The Library Department's Payroll section does not have written policies and procedures for payroll processing.

Lack of written policies and procedures weakens internal controls, increases an entity's chances for failing to meet planned objectives and may result in inconsistent processing of transactions. Consequently, the processing error rate may be higher as well as training costs.

RECOMMENDATION

We recommend that Department management prepare written payroll policies and procedures and distribute to appropriate payroll personnel. The Department should ensure that the policies and procedures are used as a training tool to develop an efficient payroll processing operation. This requires that sufficient detail is included in the policies and procedures explaining the payroll process, document preparation and filing requirements.

II. PAYROLL DEDUCTIONS

BACKGROUND

Employee payroll deductions must have supporting documents authorizing amounts deducted from an employee's paycheck. Deductions include items such as insurance premiums; credit union payments; savings bonds and City municipal campaign contributions. The Library's payroll section is required to forward the original documents to Human Resources Department/Central Payroll and to maintain copies in employee files.

FINDING

Our review of the Library personnel files revealed 12 of 60 (20%) employee's files that did not contain the required documents authorizing savings bonds and City municipal campaign contribution

deductions. If an employee were to question the deductions, the City may be subject to disputes, litigation or possible refunds for amounts deducted.

RECOMMENDATION

We recommend that the Department develop procedures to ensure that copies of documents authorizing payroll deductions are maintained in the Library's personnel files.

EXHIBIT 1

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO: Sylvia Garcia
City Controller

FROM: Barbara Gubbin, Director
Houston Public Library

DATE: June 27, 2000

SUBJECT: Payroll Audit

Our management response to the two findings of the Library Department Payroll Audit for Pay Period Ended March 12, 1999 Through Pay Period Ended August 27, 1999 is as follows:

I. Policy and Procedures

We have requested and received current documentation from Central Payroll and copies are available and being used in the Library Payroll Office. We are reviewing the sections on payroll related procedures and time and attendance reporting in the Library's Policy and Procedure Manuel and will make revisions as needed for accuracy and currency for use by timekeepers, supervisors, and staff throughout the system. We have also scheduled training for all timekeepers, supervisors, and managers during July and August 2000. We will also develop more detailed internal policies and procedures for use in the Library Payroll Office.

II. Payroll Deductions

Documentation of City municipal campaign contribution deductions has been forwarded to the Library Payroll Office for filing. In the past we have retained these records in the Library Human Resources Office; in the future we will file documentation authorizing CMC deductions in the Library Payroll office immediately at the close of the campaign. We will ensure that documentation authorizing savings bond deductions is filed consistently in the Payroll Office.

Barbara A. B. Gubbin
Director

Views of Responsible
Officials