



City of Phoenix

**Mission Statement**

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

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**Project Number**

1210020

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

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## Parks and Recreation Department Payroll Processing

April 19, 2021

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### ***Report Highlights***

#### **Attendance Management**

*Supervisors did not ensure leave was recorded in the City's human resource system. Over 900 hours were noted on leave calendars that were not recorded.*

#### **Family Medical Leave Reconciliation**

*Late Leave reports were not consistently reconciled to the City's human resource system. Based on our sample, over 800 hours of family medical leave was not recorded.*

#### **Payroll Processing**

*Overall, exception pay was approved and processed according to City policies.*

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## **Executive Summary**

### **Purpose**

Our purpose was to determine that internal controls ensured leave and exception pay transactions were accurate, authorized, and complied with City of Phoenix (City) policies.

### **Background**

The Human Resources section (Payroll) of the Parks and Recreation Department (Parks) processes payroll on an exception basis. All regular pay is programmed in the City's human resource system (eCHRIS) based on full- or part-time status of each employee. If an employee takes leave, or has other exception items to pay (e.g., overtime, holiday, and standby pay), Payroll staff inputs these exceptions, which changes the employee's regular base pay for that pay period.

We reviewed leave transactions for Parks from January 1, 2020 through August 31, 2020. We reviewed vacation, sick, Family Medical Leave Act (FMLA) leave, and Families First Coronavirus Response Act (FFCRA) transactions. Leave pay is processed automatically through a workflow process in eCHRIS. The total value of the leave transactions processed during January 1, 2020 through August 31, 2020 was approximately \$3.7 million.

We also reviewed exception pay from July 1, 2019 through August 31, 2020. Types of exception pay included (1) overtime, (2) holiday, (3) call out, (4) standby, (5) shift differential, and (6) gross wage adjustments. The City does not have a system in place that processes the exception pay forms automatically. Payroll staff are responsible for coding the exception pay forms and entering each exception code into eCHRIS. The total value of the exception pay processed during July 1, 2019 through August 31, 2020 was \$390,410.

We interviewed Payroll staff and supervisors to gain an understanding of how the approval process worked, and to ensure that leave transactions were recorded and exception time was performed.

### **Results in Brief**

**Supervisors did not ensure leave was recorded in eCHRIS. Over 900 hours were noted on leave calendars that were not recorded in eCHRIS.**

Administrative Regulation (AR) 2.30 requires supervisors to maintain leave documentation for each employee. When unscheduled absences occur, supervisors are required to submit leave entries for employees or ensure that employees enter their leave in a timely manner upon returning to work. Although City policies no longer require supervisors to maintain leave calendars, we selected a sample of 36 employee leave calendars/attendance logs and compared the information to the leave recorded in

eCHRIS. Based on our review, we identified over 900 hours of leave that were not recorded in eCHRIS. This represented 9% of all leave tested. Supervisors stated they did not enter leave for employees nor did they review leave posted in eCHRIS because it is considered to be the accurate and official record. By not entering leave or ensuring leave was entered, the “official record” would be incorrect. This process did not ensure employee leave banks were reduced to reflect actual leave balances. A risk exists that inaccurate leave balances unfairly allowed certain employees to use or be paid for more leave than they actually earned.

**Late Leave reports were not consistently reconciled to eCHRIS. Based on our sample, over 800 hours of FMLA leave were not recorded in eCHRIS.**

We compared FMLASource Late Leave reports to eCHRIS leave processed from January 1, 2020 to August 31, 2020 and identified over 800 hours that were not recorded in eCHRIS. This represents 22% of the total hours (3,666) tested for the eight-month period. In addition, leave had not been reconciled at a Citywide level or consistently at the department level since the FMLASource contract began in 2016; therefore, the number of unrecorded hours is expected to be much higher. As a result, employee leave banks were not always reduced to reflect actual leave balances. A possibility exists that employees were permitted to take additional leave with pay and that terminated/retired employees were paid for vacation/sick leave hours that were not properly reduced.

**Overall, exception pay was approved and processed in accordance with City policies.**

We reviewed 22 exception pay and gross wage adjustment transactions. We recalculated the amounts paid and verified that the payments complied with City policies without exception. We also verified that all transactions were approved by the supervisor’s signature or through workflow in eCHRIS, with one exception. One form for a part-time employee’s merit increase was not obtained; however, the employee’s supervisor confirmed the merit increase was authorized.

## **Department Responses to Recommendations**

<b>Rec. 1.1:</b> Parks Payroll – Work with the Human Resources Department to develop a mechanism that holds supervisors accountable for not processing leave in a timely manner.		
<b>Response:</b> Parks and Recreation Human Resources will develop a process for supervisors to use when processing leave. The process will be approved by the Human Resources Department and in compliance with AR 2.30 and FMLA business practices.		<b><u>Target Date:</u></b> April 29, 2022
<b>Explanation, Target Date &gt; 90 Days:</b> Parks HR, conjunction with SMEs, will develop a process for employees and supervisors to use when entering and processing leave. Review of the process will need to be conducted by Human Resources Department and may require more than 90 days.		
<b>Rec. 1.2:</b> Parks Payroll – Work with the Human Resources Department to identify procedures and training that ensure leave is entered in eCHRIS.		
<b>Response:</b> Parks and Recreation Human Resources will develop training for the new leave process for supervisors to use when processing leave. The process and training will be approved by the Human Resources Department and in compliance with AR 2.30 and FMLA business practices.		<b><u>Target Date:</u></b> April 29, 2022
<b>Explanation, Target Date &gt; 90 Days:</b> Parks HR, conjunction with SMEs, will develop a process for employees and supervisors to use when entering and processing leave to include training. Review of the process and training will need to be conducted by Human Resources Department and may require more than 90 days.		
<b>Rec. 1.3:</b> Parks Payroll – Review list of leave calendar entries not recorded in eCHRIS and process all required transactions.		
<b>Response:</b> PRD Human Resources will review leave calendar entries to process required transactions. PRD HR will work with the HR Department for verification of transactions which will require additional leave analysis.		<b><u>Target Date:</u></b> April 29, 2022
<b>Explanation, Target Date &gt; 90 Days:</b> Parks HR will provide an update at 90 days. Leave analysis can take some time (averaging 2.5 months depending on HR Department Transaction team workload) and may delay this process.		
<b>Rec. 2.1:</b> Parks Payroll – Work with the Human Resources Department to develop procedures that detail how the FMLA process works, how to use the Late Leave reports, and how to conduct Late Leave to eCHRIS reconciliations.		

<p><b>Response:</b> Parks and Recreation Human Resources will work with the Human Resources Department to develop procedures detailing the FMLA process for Parks HR staff and supervisors. Procedures will be developed in reconciling late leave to eCHRIS, and reconciliations will be performed on a *regular basis.</p>	<p><b><u>Target Date:</u></b> April 29, 2022</p>
<p><b>Explanation, Target Date &gt; 90 Days:</b> Parks HR will be reliant on the FMLA team for assisting with these procedures. Review and development may take more than 90 days depending on workload of the FMLA team and projects.</p>	
<p><b>Rec. 2.2:</b> Parks Payroll – Perform Late Leave to eCHRIS reconciliations for the past two years and ensure that all leave transactions are processed.</p>	
<p><b>Response:</b> Parks and Recreation Human Resources will review late leave for the past two years to ensure all transactions have been processed. We will work with HR Records for verification of transactions which will require additional leave analysis.</p>	<p><b><u>Target Date:</u></b> April 29, 2022</p>
<p><b>Explanation, Target Date &gt; 90 Days:</b> Parks HR will provide an update at 90 days. Leave analysis can take some time (averaging 2.5 months depending on HR Department Transaction team workload) and may delay this process.</p>	
<p><b>Rec. 2.3:</b> <u>Human Resources Department</u> – Work with FMLASource to implement the second transfer of leave that was reported late.</p>	
<p><b>Response:</b> The Human Resources Department will work in conjunction with HRIS and FMLASource to select and implement a method of capturing leave reported to vendor after the daily interface deadline, but within the City's 24 hour reporting requirement. Currently this leave does not interface directly into the City's leave system requiring department audit and manual entry. The selection process will include research into possible cost associated with implementation. This phase will be completed by October 1, 2021. The second phase would require testing and citywide communication of impact to employees. This phase will be completed by March 31, 2022.</p>	<p><b><u>Target Date:</u></b> March 31, 2022</p>
<p><b>Explanation, Target Date &gt; 90 Days:</b> The Human Resources Department needs sufficient time to work with the Contractor and the HRIS Team to identify a solution. The changes will require configuration in e-CHRIS, testing period, training regarding the policy, and implementation.</p>	
<p><b>Rec. 2.4:</b> <u>Human Resources Department</u> – Evaluate the City's policy to allow employees to report FMLA leave after the absence.</p>	
<p><b>Response:</b> The Human Resources Department will evaluate and determine any policy/process change based on the outcome of a</p>	<p><b><u>Target Date:</u></b> March 31, 2022</p>

Rec. # 2.3. Communication and training regarding policy/practice change will be completed by March 31, 2022.	
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<b><i>Explanation, Target Date &gt; 90 Days:</i></b> Recommendation 2.3 needs to be completed and sufficient time is needed to provide communication and training for the change in policy.
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# **1 – Leave Processing and Management**

## **Background**

The Leave Automation Management Program (LAMP) application of eCHRIS allows employees and supervisors to enter and track leave. Leave accruals, deductions, and leave without pay are automatically pulled from LAMP. Two to three times each pay period, Payroll staff monitor LAMP audit reports for accurate leave transactions and work with supervisors to make adjustments as necessary.

AR 2.30 (B) states supervisors are required to manage or minimize unscheduled employee absences. Procedures to accomplish this include:

- Maintaining leave documentation for each employee supervised.
- When unscheduled absences occur, submitting leave entries for employees or ensuring that employees enter their leave in a timely manner upon returning to work.
- Preventing overpayments by completely and accurately approving and submitting all leave requests each pay period to ensure that employee leave banks are appropriately charged.

We obtained a Z\_LVE report history for the period April 16, 2020 through October 5, 2020 to verify LAMP audit reports were utilized by Payroll staff. We obtained supervisor leave calendars and an eCHRIS download of leave processed for the period January 1, 2020 through August 31, 2020. We verified leave calendars agreed to eCHRIS.

## **Results**

**Payroll staff reviewed LAMP audit reports, and identified and corrected issues; however, some issues took months to resolve.**

We obtained an eCHRIS Z\_LVE/LAMP audit report history from April 16, 2020 to October 5, 2020. We determined that each Payroll Clerk ran the audit reports at least twice per pay period, with an occasional exception when a Clerk was on leave. However, the policy was that another Clerk would run the report for the absent Clerk's sections.

We also obtained a departmentwide copy of the LAMP audit reports and selected a sample of items for review. During the Payroll Clerks' review, they identified and corrected, or worked to have transactions corrected, where, (1) leave was in an unapproved status (2) the leave code was not appropriate based on the comments listed, and (3) an employee was reporting to a vacant position. Payroll Clerks provided support for issues identified during their review. However, we noted a few leave transactions that had been in an unapproved status for more than three months. Payroll Clerks provided copies of emails sent to supervisors, yet some supervisors took months to approve the leave request. Clerks escalated the emails up the chain of command

until the leave was processed by the supervisor. In addition, when supervisors do not ensure leave is processed, it creates additional work for the payroll clerks, who need to make sure all unrecorded leave is posted prior to a termination. This process is inefficient, and may lead to leave not being processed prior to termination/retirement.

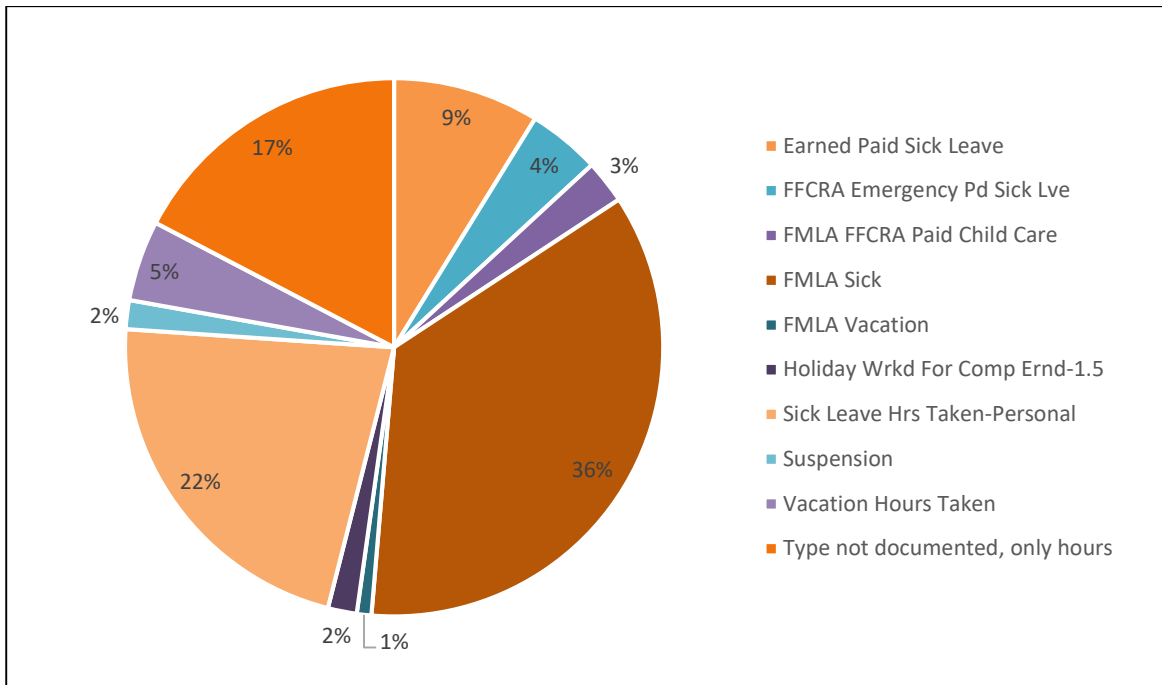
**Supervisors did not ensure leave was recorded in eCHRIS. Over 900 hours of leave were noted on leave calendars that were not entered into eCHRIS.**

To determine if leave was recorded in eCHRIS we interviewed Parks staff to identify how supervisors tracked and monitored leave taken. Supervisor documentation of employee leave taken included tracking employee leave on the supervisor's own Outlook calendar, post-it notes, absentee/leave calendars, attendance logs, or information in eCHRIS.

Although City policies no longer required supervisors to maintain leave calendars, we selected a sample of 36 employee leave calendars/attendance logs and compared the information to the leave recorded in eCHRIS. Based on our review, we determined approximately 10,400 hours of leave were posted in eCHRIS; however, we identified over 900 hours of leave that were not recorded in eCHRIS. This represented 9% of all leave tested. When projected to the total leave processed during the time period reviewed, over 16,000 hours of leave may not have been recorded in eCHRIS. Supervisors stated they did not enter leave for employees nor did they review leave posted in eCHRIS because it is considered to be the accurate and official record. However, by not entering leave or ensuring leave was entered, the "official record" would be incorrect. This process did not ensure employee leave banks were reduced to reflect actual leave balances. A risk exists that inaccurate leave balances unfairly allowed certain employees to use or be paid for more leave than they earned.



## Leave Not Recorded by Type



**Most of the hours not recorded in eCHRIS were sick/FMLA leave.**

As depicted in the chart above, most of leave hours that were not recorded related to sick leave and FMLA. Had supervisors entered sick leave or ensured FMLA leave was processed, most of the transactions would have been recorded. Since the City does not have a time and attendance system, Human Resources Department (HR) staff stated that supervisors are encouraged to maintain a tracking mechanism because not all incidents are tracked in eCHRIS, such as when an employee calls out for an overtime shift or is out for an industrial appointment. We identified two supervisors that had accurate records. They entered sick leave for employees, tracked leave and incidents on calendars, and verified hours were recorded in eCHRIS at least once a month.

## Recommendations

- 1.1 Parks Payroll – Work with the Human Resources Department to develop a mechanism that holds supervisors accountable for not processing leave in a timely manner.
- 1.2 Parks Payroll – Work with the Human Resources Department to identify procedures and training that ensure leave is entered in eCHRIS.
- 1.3 Parks Payroll – Review list of leave calendar entries not recorded in eCHRIS and process all required transactions.

## **2 – FMLA Late Leave Reconciliation**

### **Background**

The City requires employees on FMLA leave to use their sick and vacation leave accruals concurrently with FMLA leave. The City contracted with FMLASource to provide FMLA administration services for the City. This includes receiving and tracking leave requests, as well as maintaining the City's official FMLA records. It is important that these records agree with FMLA hours in eCHRIS so that sick and vacation leave balances are depleted correctly and leave without pay occurs when leave balances have been exhausted.

Supervisors and employees are not able to enter FMLA leave into eCHRIS. For continuous FMLA leave (leave that is taken and not broken up by period of work), the leave time is recorded in FMLASource's system based on information obtained from the employee's doctor. The leave records interface to eCHRIS on a daily basis. For intermittent FMLA leave (leave that is broken down into increments rather than continuous), the employee needs to notify FMLASource prior to the start of the working shift. FMLASource will then automatically notify the employee's supervisor by email. The leave data will interface into eCHRIS the following business day. The supervisor must then approve the leave in eCHRIS.

The daily interface between FMLASource and eCHRIS is limited. Only leave requests reported to FMLASource on, or prior to, the day of the absence interface to eCHRIS. If an employee reports leave after the day of the absence the entry must be manually processed. To ensure all transactions are recorded departments are required to run the FMLASource Late Leave report and manually process the leave requests.

We obtained FMLA Late Leave reports from FMLASource and an eCHRIS download of leave processed from January 1, 2020 through August 31, 2020. We reconciled the data between the two systems.

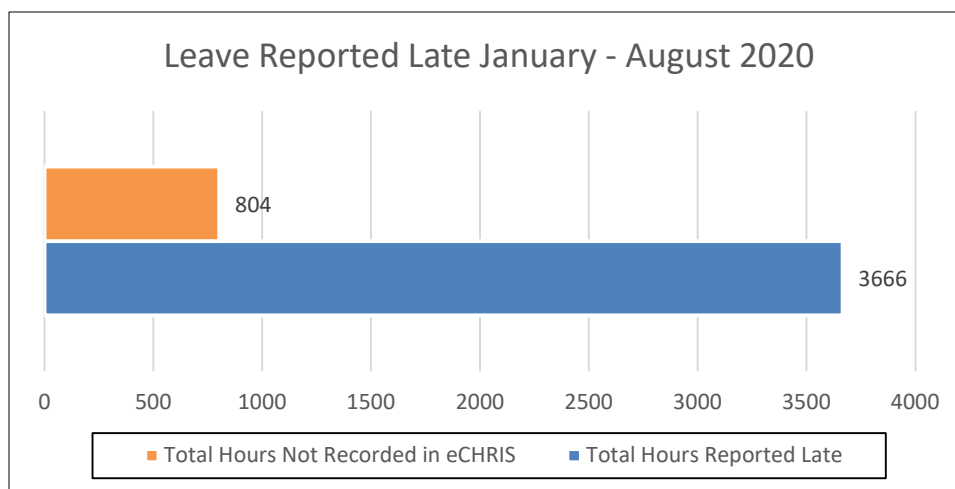
### **Results**

**Late Leave reports were not consistently reconciled to eCHRIS by Parks Payroll. Based on our sample, over 800 hours of FMLA leave was not recorded in eCHRIS.**

As a result of a prior audit recommendation, the Human Resources Department (HR) provided training to department assigned Payroll Clerks on how to access and use the Late Leave reports to reconcile FMLASource data to FMLA leave hours recorded in eCHRIS. However, due to turnover and lack of documented procedures Parks Payroll staff were not consistently performing the reconciliations. Errors/deficiencies in FMLA entries were discovered while Payroll staff were reviewing an employee's leave history for another reason and were corrected at that time. When the COVID-19 pandemic began, employees were allowed to use emergency FMLA to care for their children who were not in school. At that time, HR gave written instructions to departments to perform Late Leave to eCHRIS reconciliations.

We compared FMLASource Late Leave reports to eCHRIS leave processed from January 1, 2020 to August 31, 2020 and identified over 800 hours that were not recorded in eCHRIS. This represented 22% of the total hours (3,666) tested for the eight-month period. In addition, leave had not been reconciled at a Citywide level or consistently at the department level since the FMLASource contract began in 2016; therefore, the number of unrecorded hours is expected to be much higher. As a result, employee leave banks were not always reduced to reflect actual leave balances. A risk exists that employees took additional leave with pay and that terminated/retired employees were paid for vacation/sick leave hours that were not properly reduced.

### FMLA Leave Reported Late



**Over 800 hours of FMLA leave were not recorded in eCHRIS.**

AR 2.143 states that supervisor responsibilities include ensuring FMLA leave is processed in eCHRIS as selected from the appropriate leave bank chosen by the employee. Because late leave was not transferred to eCHRIS, supervisors were not notified that leave needed to be processed. As stated in the previous section, not all supervisors reconciled employee absences to eCHRIS, and therefore did not ensure all leave was processed. Supervisors stated the automated emails from FMLASource regarding late leave reported were confusing and did not explain what action they were required to perform. Supervisors did not have written procedures related to processing late leave, or that required them to reconcile employee attendance records to what was recorded in eCHRIS.

In FY2019, audit recommendations were given to HR to provide supervisors with written procedures and to periodically reconcile FMLASource reports to eCHRIS to ensure all necessary adjustments are being processed by departments and FMLASource. Procedures have not been provided to supervisors nor has the reconciliation occurred, and the audit recommendations remain outstanding.

**A second transfer of leave reported late would have reduced the time required to manually process FMLA leave and would have improved the accuracy of employee leave balances.**

The eight-month period described above represented over 600 transactions for just one department that needed to be manually processed. We discussed the volume of Citywide late leave transactions with HR. Staff stated that prior to the pandemic, HR was working with FMLASource to implement a second transfer process. A second transfer would have automatically processed transactions reported within the first 24 hours of the date of absence. Based on our review, this would have significantly reduced the number of entries on the late leave report that required manual processing.

Although the City's FMLA policy required employees to notify FMLASource on or before the date of absence, employees have been allowed to notify FMLASource after their absence, and to use unapproved reporting methods (email or leaving voice messages). Based on the volume of leave reported late, the policy appears to be utilized more frequently than originally expected, increasing the time required to process late leave.

## **Recommendations**

- 2.1 Parks Payroll – Work with the Human Resources Department to develop procedures that detail how the FMLA process works, how to use the Late Leave reports, and how to conduct Late Leave to eCHRIS reconciliations.
- 2.2 Parks Payroll – Perform Late Leave to eCHRIS reconciliations for the past two years and ensure that all leave transactions are processed.
- 2.3 Human Resources Department – Work with FMLASource to implement the second transfer of leave that was reported late.
- 2.4 Human Resources Department – Evaluate the City's policy to allow employees to report FMLA leave after the absence.

### **3 – Exception Pay**

#### **Background**

Parks Payroll staff process payroll on an exception basis. Exception pay is all pay that is an adjustment of an employee's regular base pay. All regular pay is programed in eCHRIS based on the full- or part-time status of an employee. If an employee takes leave, or has other exception items to pay, Payroll staff inputs those exceptions to adjust the employee's regular base pay for that pay period.

Employees complete a "blue slip"/ exception pay form that their supervisor must approve to ensure that the employee is entitled to the hours documented, and that the time reported was worked. The signed forms are sent to Payroll staff to process the exception pay each pay period.

The Payroll Clerks process all the exception forms on the Monday before payday. The Clerks review the forms to ensure they are complete, mathematically accurate, and comply with City policies. Then the Clerks code all the hours noted on the hard copy forms with the appropriate pay codes. Once they have coded all the hard copy forms, they input each form into eCHRIS. This is done in batches. At the end of each batch, the Clerks must reconcile what was entered into eCHRIS, to the pay codes, and to the hours noted on the exception forms. This is done for each batch until all exception time is entered and is accurate based on the batch reconciliations.

Gross wage adjustments are used to increase or decrease an employee's pay where a manual calculation is necessary and another more descriptive earn code is not available. The most common reason for a gross wage adjustment is to give an employee back pay because of a late step increase or performance review. Payroll Clerks review the Late Employee Review Ratings report to (1) identify late performance reviews, (2) determine the rates of pay and the applicable date in order to perform the manual calculation, and (3) enter the information into eCHRIS. A similar process is followed when processing gross wage adjustments for an employee working in an interim or acting capacity; however, a form is also completed and signed by the supervisor.

We obtained a master payroll download from eCHRIS for all Parks employees. This included regular pay and exception pay. Our testing included overtime, holiday, call out, standby, shift differential, and gross wage adjustment exception pay transactions for full- and part-time employees. We selected a sample of exception pay and gross wage adjustment transactions from July 1, 2019 through August 31, 2020.

We reviewed the hard copy files to determine if:

- The forms were completed and signed by the employee
- The forms were approved with the supervisor's signature
- The pay code matched what was in eCHRIS

- The pay amount was mathematically accurate (recalculated) and matched what was in eCHRIS
- The pay was allowed and complied with the applicable AR and/or Memorandum of Understanding/Agreement (MOU/MOA)

## Results

### **Overall, exception pay was approved and processed in accordance with City policies.**

We reviewed 22 exception pay and gross wage adjustment transactions. We recalculated the amounts paid and verified the payments complied with City policies. For example, when testing overtime pay, we verified the employee worked over 40 hours per week and that paid sick leave was not considered as time worked in computing the basic workweek, unless allowed by an MOU. No exceptions were noted.

We also verified all transactions were approved by the supervisor's signature or through workflow in eCHRIS, with one exception. Wage adjustments for part-time employees do not go through workflow in eCHRIS, instead a form is completed. A form was not obtained for the merit increase of one part-time employee; however, the employee's supervisor confirmed the merit increase was authorized. As this was an isolated incident, we passed on making a formal recommendation.

The current process of using hard copy exception forms is very time intensive. In addition, there may be multiple forms submitted by an employee for the same pay code and hours worked. Based on our testing, the Payroll Clerks were accurately removing duplicate forms prior to payroll being processed. However, the large volume of hard-copy forms that Payroll Clerks were required to review each pay period increases the risk of overpayments. We also noted that, beginning March 2020, exception forms were accepted electronically due to the COVID-19 pandemic. A best practice was to stamp the form as processed to prevent processing the exception pay twice.

## Recommendation

None

## **Scope, Methods, and Standards**

### **Scope**

We reviewed Parks payroll transactions occurring from January 1, 2019 through August 31, 2020. Detailed testing was performed on leave (vacation, sick, and FMLA) and exception pay code transactions.

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

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

### **Methods**

We used the following methods to complete this audit:

- We interviewed HR and Parks Payroll staff and supervisors.
- We reviewed attendance tracking measures.
- We reviewed FMLA reconciliation procedures.
- We selected a sample of leave and exception pay codes to test for compliance with City policies.

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

### **Standards**

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

delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.