



City of  
Corpus  
Christi

**AU13-F01  
Financial Services Department  
Payroll Audit  
Follow-up Report**

**Office of the City Auditor  
Arlena Sones, CPA, CIA, CGAP  
City Auditor**

**July 31, 2013**

## Executive Summary

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As part of our annual Audit Plan, we conducted a follow-up audit of the Financial Services Payroll Audit Report dated May 24, 2012. The original report contained six recommendations which were all accepted by management.

The objective of this follow-up audit is to determine if prior audit recommendations were successfully implemented and are working as intended.

We concluded that four of the six recommendations have been implemented. The two recommendations not fully implemented are described below:

- Financial Services has created and distributed procedures for approving, documenting and maintaining payroll records; however, the procedures have not been officially approved and added to the department procedures.
- Financial Services has not updated signature cards for City bank accounts.

Discussion of prior recommendations and the current statuses begins on page 3. Management of Financial Services agrees with this report. See page 6.

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## Payroll Audit Follow-up Report

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### Background

The City Auditor's Office conducted an audit of the Financial Services Department Payroll Division dated May 24, 2012. The objective of that audit was to determine if:

- Payroll and overtime transactions were accurately calculated and recorded in the proper period.
- Records supporting the transactions were properly maintained.
- Policy and procedures provided effective controls to ensure compliance with applicable laws and regulations.

### Audit Objective, Scope and Methodology

The objective of this follow-up audit is to determine the status of the recommendations detailed in the payroll audit report dated May 24, 2012.

The follow-up audit was limited to a review of the findings and recommendations detailed in original report. The audit scope covered the operations of payroll processes for November 1, 2012- April 30, 2013.

To accomplish our audit objective, we reviewed updated policies and procedures related to payroll, and we conducted interviews with management and staff of Financial Services and MIS. We reviewed PeopleSoft payroll programming revisions, exception reports, and queries. We performed test work related to payroll and overtime calculations, employee reimbursement, and maintenance of support documentation.

We conducted the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500 A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We conducted this audit from April 2013 through July 2013.

### Audit Conclusion

Four of the six recommendations have been fully implemented. The following table summarizes the recommendations made to management and the current status of management efforts.

Issue No.	Summary of Recommendations	Status
A.1	Ensure that the City's payroll system correctly calculates overtime rates for eligible employees so that the City is in compliance with Fair Labor Standards Act (FLSA).	Implemented
A.2	Ensure that employees who work overtime and work at two or more different pay rates in a workweek are paid in compliance with FLSA.	Implemented
A.3	Ensure that an employee's "regular rate" on which overtime pay is based complies with the FLSA for non-exempt civilian employees.	Implemented
B.	Ensure compliance with Internal Revenue Code 457(b) and restore amounts due to current and former participants of the plan.	Implemented
C.	Ensure that supporting payroll records and personnel records are properly approved and maintained. Develop overtime procedures that require overtime be approved, documented, and maintained.	In Progress
D.	Ensure that bank signature cards are kept current at all times for all City bank accounts.	In Progress

Discussion of prior recommendations and the current statuses begins on page 3.

**Staff Acknowledgment**

Kimberly Houston, Senior Auditor  
Celia Gaona, CIA CISA CFE, Consultant

## Prior Recommendations and Status

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### A. Compliance with the Fair Labor Standards Act (FLSA)

#### A.1 Exclusion of Additional Pays and Assignment Pays in the “Regular Rate”

Management should ensure that the City’s payroll system correctly calculates overtime rates for eligible employees so that the City is in compliance with FLSA. The employee’s “regular rate” should include the employee’s hourly rate, plus any additional pays, or shift differential pay, which is then divide by the total number of hours worked per week. This provides the employee’s “regular rate” which can be used to calculate the overtime premium for that workweek.

#### **Status: Implemented**

Management has revised the payroll system to include additional pays and shift differential pay when calculating overtime. Affected employees were identified and reimbursements were made.

#### A.2 Weighted Average Pay Rates

Management should ensure that employees who work overtime and work at two or more different pay rates in a workweek are paid overtime in compliance with FLSA.

#### **Status: Implemented**

Management has revised overtime calculation by using a weighted average for employees who work two or more different pay rates in a workweek.

#### A.3 “Regular Rate” Calculation

City Management should ensure that an employee’s “regular rate” on which overtime pay is based complies with the FLSA for non-exempt civilian employees. However, should the City decide to continue to calculate overtime using its current method, they should consider formally documenting such a statement into City policy.

**Status: Implemented**

Management has revised the overtime calculation by taking total compensation and dividing by total hours worked. The calculation is based on the 80 hour bi-weekly pay period instead of the 40 hour workweek required by FLSA. Management states this is due to payroll system limitations.

**B. Compliance with Internal Revenue Code**

City Management should:

- 1) Ensure that the City complies with terms of the 457(b) plan. One method to consider is to generate exception reports for each pay period to identify part-time, seasonal, or temporary employees whose payroll checks do not have FATP withholdings.
- 2) Coordinate with the City's 457 Plan Administrator to determine restoration amounts due since the plan's establishment for current and former part-time, temporary, and seasonal employees participating in the plan.
- 3) Contact the State Social Security Administrator for assistance on former part time, temporary, and seasonal employees not enrolled in the plan.

**Status: Implemented**

Management has complied with the terms of the 457(b) plan and restored amounts due to part-time, seasonal, and temporary employees since the plan's establishment.

**C. Maintenance of Payroll Records and Lack of Overtime Policy**

City Management should:

- 1) Ensure that supporting payroll records and personnel records are properly approved and maintained in compliance with the Texas State Library and Archives Commission.
- 2) Develop overtime procedures that require overtime be approved, documented, and maintained in accordance to the Texas State Library and Archives Commission. Documentation of overtime will help management assess whether overtime is necessary or avoidable.

**Status: In Progress**

Although overtime procedures were developed and distributed to staff, the procedures have not been formally documented in the department procedures.

**D. Payroll Account Signature Rights**

City Management should ensure that bank signature cards are kept current at all times for all City bank accounts. Signature cards and authority levels should be reviewed annually or whenever any changes occur. Individuals with bank transaction authority should be removed immediately upon resignation or termination.

**Status: In progress**

All signature cards for City bank accounts had not been updated. Management is currently working to resolve the issue.

**Other Matters**

The prior audit noted that City policy permits non-worked holiday hours to be included as “actual hours worked” in calculating overtime hours for non-exempt employees. Since that time, City policy was revised exclude non-worked holiday hours in the overtime calculation which would result in cost savings to the City.

## Appendix A Management Response



City of  
Corpus  
Christi

July 26, 2013

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: Management Responses to AU13-F01 Financial Services Payroll Audit Follow-up  
Report

**FINANCIAL SERVICES**

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Corpus Christi  
Texas 78469-9257  
Phone 361-826-3600  
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www.cctexas.com

Dear Arlena:

Thank you for the opportunity to review how Financial Services has implemented the Payroll Audit recommendations with you and your staff. We welcome the opportunity for continuous improvement and appreciate the time that you and your staff have spent with us.

Financial Services has reviewed the Payroll Audit Follow-up Report and fully agrees with the report as noted below:

Fully Agree (*provide detailed comments*)

Financial Services will be adding the additional procedures implemented as a result of the Payroll Audit to our departmental Payroll procedural manual. Additionally, we are in the process of obtaining an updated bank signature card from Frost Bank.

Do Not Agree (*provide detailed comments*)

Thank you again.

Sincerely,



Constance P. Sanchez, Director  
Financial Services